volume 1

by Seth Godin

# About this e-booklet

There's a difference between data and information. The Net is filled with literally billions of web pages, all crammed with stuff—some useful, some not. You don't need more data. You need information. News you can use. Solutions to your problems.

This e-booklet is based on *The Bootstrapper's Bible*, a book I wrote a few years ago. What I've done is divided it into short sections, so you can find the little kernel of insight you need, when you need it (I hope!). Sure, some of the stories are out of date. Sorry.

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I'd love to hear from you. I often speak to corporations and large groups, but I never consult or work with individual companies.

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# The Bootstrapper's Bible
# Volume 1

## Contents

# What's a bootstrapper?

Well, since you bought this e-booklet, chances are that you qualify! For me, a bootstrapper isn't a particular demographic or even a certain financial situation. Instead, it's a state of mind.

Bootstrappers run billion-dollar companies, nonprofit organizations, and start-ups in their basements. A bootstrapper is determined to build a business that pays for itself every day. In many ways, it's easiest to define a bootstrapper by what she isn't: a money-raising bureaucrat who specializes in using other people's money to take big risks in growing a business. Not that there's anything wrong with that...

You can use the information in this e-booklet to make any company more focused, more efficient, and more grassroots. Throughout this e-booklet, though, I'll be primarily addressing the classic bootstrapper: entrepreneurs who are working their butts off to start a great business from scratch with no (or almost no) money.

At last count, there were several million bootstrappers in this country, with another few million wannabes, just waiting for the opportunity. My goal is to give you enough insight and confidence that you'll get off the bench and make it happen.

## THE BOOTSTRAPPER'S MANIFESTO

*Tape this to your bathroom mirror and read it out loud every night before you go to bed:*

I am a bootstrapper. I have initiative and insight and guts, but not much money. I will succeed because my efforts and my focus will defeat bigger and better-funded competitors. I am fearless. I keep my focus on growing the business—not on politics, career advancement, or other wasteful distractions.

I will leverage my skills to become the key to every department of my company, yet realize that hiring experts can be the secret to my success. I will be a fervent and intelligent user of technology, to conserve my two most precious assets: time and money.

My secret weapon is knowing how to cut through bureaucracy. My size makes me faster and more nimble than any company could ever be.

I am a laser beam. Opportunities will try to cloud my focus, but I will not waver from my stated goal and plan—until *I* change it. And I know that plans were made to be changed.

I'm in it for the long haul. Building a business that will *last* separates me from the opportunist, and is an investment in my brand and my future. Surviving is succeeding, and each day that goes by makes it easier still for me to reach my goals.

I pledge to know more about my field than anyone else. I will read and learn and teach. My greatest asset is the value I can add to my clients through my efforts.

I realize that treating people well on the way up will make it nicer for me on the way back down. I will be scrupulously honest and overt in my dealings, and won't use my position as a fearless bootstrapper to gain unfair advantage. My reputation will follow me wherever I go, and I will invest in it daily and protect it fiercely.

I am the underdog. I realize that others are rooting for me to succeed, and I will gratefully accept their help when offered. I also understand the power of favors, and will offer them and grant them whenever I can.

I have less to lose than most—a fact I can turn into a significant competitive advantage.

I am a salesperson. Sooner or later, my income will depend on sales, and those sales can be made only by me, not by an emissary, not by a rep. I will sell by helping others get what they want, by identifying needs and filling them.

I am a guerrilla. I will be persistent, consistent, and willing to invest in the marketing of myself and my business.

I will measure what I do, and won't lie about it to myself or my spouse. I will set strict financial goals and honestly evaluate my performance. I'll set limits on time and money and won't exceed either.

Most of all, I'll remember that the journey is the reward. I will learn and grow and enjoy every single day.

### TRUE STORY 1: I AM A LASER BEAM

The big call came just a few months after Michael Joaquin Grey and Matthew Brown had started up their toy company. Would the two San Francisco bootstrappers like their product included in the movie marketing blitz for ***The Lost World?*** Nope, said Grey and Brown, who preferred to stick with their vision of gradually building a market for Zoob, their plastic DNA-like building toy.

What the bootstrappers feared was a loss of identity. If they hooked up with the celluloid dinosaurs, they'd be seen as just another ***Jurassic*** spinoff. On their own, they could create a separate brand and not only avoid extinction but create their own world. Eventually, the two even hope to have their own Zoob movies.

### TRUE STORY 2: THE BOOTSTRAPPER IS HERE FOR THE LONG HAUL

Jheri Redding started not one, but four companies. And when the renowned bootstrapper died at 91 in 1998, all four—including the first, Jheri Redding Products, begun in 1956—were still in operation. How'd he do it?

Redding created lasting businesses through the combination of a gift for spotting long-term opportunity and his relentless drive to create significant competitive advantages in product features and distribution clout. The Illinois farm boy became a cosmetologist during the Great Depression because he saw hairdressers prospering and farmers failing. He soon began experimenting with shampoo formulas and showed remarkable flair for innovation.

Redding was the first to add vitamins and minerals to shampoos, the first to balance the acidity of the formulas, and the first to urge hairdressers to supplement their haircutting income by selling his products on the slow days of Monday, Tuesday, and Wednesday. The first? Yes, and also the last. There aren't many like Jheri Redding, who also founded Redken (1960), Jhirmack (1976), and Nexxus Products (1979).

### TRUE STORY 3: I WILL KNOW MORE ABOUT MY FIELD THAN ANYONE ELSE

When Yves Chouinard starting scaling mountains, rock climbers used soft cast-iron pitons that had to be discarded after a single use. Chouinard, who was as passionate about climbing peaks as he was about his work as a blacksmith, designed a new piton of aircraft-quality chrome-molybdenum steel. The tougher, reusable piton met climbers' needs much better and became an instant success.

As piton sales climbed, Chouinard himself kept climbing too, as much or more than ever. He recalls, "Every time I returned from the mountains, my head was spinning with ideas for improving the carabiners, crampons, ice axes, and other tools of climbing."

It's been 40 years since the blacksmith-climber hammered out his first steel piton. Since then, it and his many other designs have become the foundation for Patagonia Inc., a $100 million outdoor apparel company based in Ventura, California. Although he's now a highly successful businessman, Chouinard still climbs regularly, testing his company's new products while honing its most important tool: his own matchless knowledge of climbers' needs.

### TRUE STORY 4: I AM A SALESPERSON

Shereé Thomas had a personal question in mind when she called the customer service line of the company that makes Breathe Right nasal strips. But when she found herself talking to the company's medical director, she went beyond her question and revved up a sales pitch for a liquid she had invented that neutralizes the smell of cigarette smoke on clothes and hair.

A couple of switchboard clicks later, Thomas was on the line with the company's president. And three weeks after that, the company had signed a licensing agreement to invest $4 million to manufacture, market, and distribute Banish, the product Thomas mixed up in her chemist-grandfather's garage. Throught the licensing deal, this Cedar Park, Texas, bootstrapper will rack up around six figures in annual royalty payments.. Her investment in the sale: a phone call to the company's toll-free line—and a personal commitment never to stop selling.

### TRUE STORY 5: THE JOURNEY IS THE REWARD

Charles Foley was 18 when he told his mother he expected to invent things that would be used everywhere. At 67, the inventor has 130 patents to his credit, including one for the venerable party game Twister, which he invented in the 1960s and still sells today.

But Foley, of Charlotte, North Carolina, is still at the inventing game. He recently revived a discovery of his from the 1960s, an adhesive-removing liquid, and sold the rights to make and market it to a company headed by his son. He's also working on new designs for fishing floats and a home security system.

Driven to search for success? Hardly. Foley's just following his bootstrapping nature on a journey that's lasted a lifetime. "I was born with a gift," he shrugs. "Ideas pop into my head."

## WHAT'S A BIG COMPANY GOT THAT YOU HAVEN'T GOT?

Most of the companies you deal with every day, read about in the media, or learn about in school are companies with hundreds or thousands of employees. They have an ongoing cash flow and a proven business model. (I'll explain what that is in the next chapter.)

Because this is the way you've always seen business done, it's easy to imagine that the *only* way to run a business is with secretaries and annual reports and lawyers and fancy offices. Of course, this isn't true, but it's worth taking a look at the important distinctions between what *they* do and what *you* do.

Just as playing table tennis is very different from playing Wimbledon tennis, bootstrapping your own business is a world apart from running IBM. You need to understand the differences, and you need to understand how you can use your size to your advantage.

Traditional companies succeed for a number of reasons, but there are five key leverage points that many of them capitalize on.

1. *Distribution.* How is it that Random House publishes so many best-selling books, or Warner Music so many hit records? Distribution is at the heart of how most businesses that sell to consumers succeed. In a nutshell, if you can't get it in the store, it won't sell.

Companies with a lot of different products can afford to hire a lot of salespeople. They can spread their advertising across numerous products and they can offer retailers an efficient way to fill their stores with goods.

Traditional retailers want the companies that sell them products to take risks. They want guarantees that the products will sell. They want national advertising to drive consumers into the store. They insist on co-op money, in which the manufacturer pays them to advertise the product locally.

That's why Kellogg's cereals are consistently at the top of the market share list. Lots of smaller companies can make a better cereal, and they can certainly sell it for less. But Kellogg's is willing to pay a bribe (called a "shelving allowance") to get plenty of space at the supermarket. Kellogg's airs commercials during Saturday morning TV shows. And Kellogg's has hundreds of sales reps wandering the aisles of grocery stores around the country.

Kellogg's wins the market share battle in mass-market cereals because it succeeds at the last and most important step: getting the product in front of the consumer.

2. *Access to capital.* The big guys can borrow money. Lots of it. It's no big deal for a car company to raise $200 million to pay for a new line of cars. In industries where the expenses for machinery, tooling, research and development, and marketing are high, big companies with cheap money often prevail.

Microsoft, for example, took six or more years to turn Windows from a lame excuse of a product into the market-busting operating system it is now. Year after year after year, it lost money marketing lousy versions of Windows. How could it afford to do this? By raising money from the stock market at very low cost and hanging in.

Big companies have access to capital that a little guy can't hope to match. A hot company like Yahoo! was able to raise money from the stock market with no personal guarantees, no interest payments, no downside risk. And it raised a lot. More established companies can issue bonds or get lines of credit for billions of dollars. The banks and investors that back these companies aren't looking for a monthly or even a yearly return on their investment. Instead, they're focusing on building profits a decade from now. A bootstrapper could never afford to compete with this approach.

If a market can be bought with cash, a big company will do it.

3. *Brand equity.* Why would you be more likely to try a new line of clothes from Nike than from Joe's Sporting Goods Store? Because Nike has invested billions of dollars in building a brand name, and you've learned to trust that name. Nike can leverage its name when introducing new products.

Don't underestimate the power of the brand! *Financial World* magazine estimates that the Marlboro name and logo are worth more than $2 billion. Any tobacco manufacturer can make a similar cigarette. But only Phillip Morris gets to extract the profit that comes from having more than 50 percent market share.

If the consumer of the product is likely to buy from an established brand name, the big company has a huge advantage.

4. *Customer relationships.* Especially for companies that sell in the business-to-business world, access to customers is a tremendous advantage. Time Warner collects nearly one-third of all the advertising dollars spent on magazines in this country every year. When Time launches a new magazine, it has a tremendous advantage in selling the ad space. A fledgling competitor, on the other hand, has to start from scratch.

Last year, Costco sold more than $30 million worth of shrimp in its giant warehouse stores. The company can choose from hundreds of different shrimp suppliers (it all comes from the same ocean!), but it deals with only three firms. Why? Because the shrimp buyer at Costco doesn't have time to sift through every possible supplier every time she makes a new purchase. So she works with companies she trusts, companies she's worked with before.

In established markets, customer relationships are a huge advantage.

5. *Great employees.* Big companies are filled with turkeys, lifers, incompetents, and political operators. But there, among the bureaucrats, are some exceptional people. Great inventors, designers, marketers, salespeople, customer service wizards, and manufacturers. These great people are drawn to a company that has a great reputation, offers stability, and pays well. Smart companies like Disney leverage these people to the hilt.

During a meeting with someone at Disney, I saw a stack of paper on the corner of his desk. "What's that?" I asked. He replied that they were resumes. More than 200 of them, all from extraordinarily qualified people, one with a gorgeous watercolor on it. All of them had come from one tiny classified ad in the LA paper. Big companies attract powerfully talented people.

What's a bootstrapper to do? Big companies have better distribution, access to money whenever it's needed, a brand that customers trust, access to the people who buy, and great employees. They've got lots of competition, big and small, and they've sharpened their axes for battle. Do you have a chance to succeed?

No.

Not if you try to compete head to head in these five areas. Not if you try to be just like a big company, but smaller. If you try to steal the giant's lunch, the giant is likely to eat *you* for lunch.

Inventing a new computer game and trying to sell it in retail outlets would be crazy—Electronic Arts and Broderbund will cream you. Introducing a new line of sneakers to compete head to head with Nike at the core of its market would be suicidal.

You have to go where the other guys can't. Take advantage of what you have so that you can beat the competition with what they don't.

Many bootstrappers miss this lesson. They believe that great ideas and lots of energy will always triumph, so they waste countless dollars and years fighting the bad guys on their own turf.

That's why the gourmet food business bugs me so much. Every year, another 2,000 gourmet items—jams, jellies, nuts, spreads, chips—are introduced. And every year, 1,900 of them fail. Why? Because the bootstrappers behind them are in love with an idea, not a business. Successful bootstrappers know that just because they can make a product doesn't mean they should. Making kettle-fried potato chips from your grandmother's recipe may sound appealing, but that doesn't mean that you can grow the idea into a real business.

Given the choice between building a thriving, profitable business with a niche and a really boring product and putting your life savings into an intensely competitive business where you're likely to fail but the product is cool, the experienced bootstrapper will pick the former every time. If you find an industry filled with wannabe entrepreneurs with a dollar and a dream, run away and look for something else!

Now let's take a look at the good news. You have plenty of things that the big guys don't, things that can give you tremendous advantages in launching a new business.

1. *Nothing to lose.* This is huge. Your biggest advantage. Big, established companies are in love with old, established ways. They have employees with a huge stake in maintaining the status quo. How

many of the great railroad companies got into the airline business? Zero. Even though they could have completely owned this new mode of transport, they were too busy protecting their old turf to grab new turf.

Whenever a market or a technology changes, there's a huge opportunity for new businesses. The number-one Web site on the Internet isn't run by Ziff Davis or Microsoft. It's run by an upstart bootstrapper named Jerry Yang (Yahoo!).

Fifteen years ago, I met with Jim Levy. At the time, he was running the fastest-growing company in the history of the world. Activision had exploded on the scene, introducing one videogame after another, capturing a huge share of the Atari 2600 marketplace. After just one year, the company had transformed itself from bootstrapper to fat, happy bureaucracy.

As a freshly minted, slightly arrogant MBA, I decided it was my job to tell him what to do next. So I handed him an article from the *Harvard Business Review* and explained that he ought to start using some of the huge profits that Activision was earning to take over the brand-new software market. By making software for IBM PC and Apple Macintosh, he could leverage his early lead and his cash and own even more markets.

But Jim had something to lose. His investors and his employees wanted more years like the one they'd just finished. They didn't want to hear about investing in new markets. They wanted to hear about profits. So Activision did more of the same.

A few years later, they were bought for, like, $4.34.

2. *Happy with small fish.* In the ocean, the first animals to die are the big fish. That's because they need to eat a lot to be happy. The small guys, the plankton, can make do with crumbs. Same is true with you. Disney can't be happy with a movie that earns less than $40 million at the box office. Compare this to the entrepreneur in Vermont who made a kids' video in 1990 called *Road Construction Ahead.* He was just delighted when he made more than $100,000.

Think about the orders of magnitude at work here: $40 million at the box office is *400* times $100,000. Just imagine all the room there is for a small business that operates under the radar of the giant.

Find a niche, not a nation.

3. *Presidential input.* In many companies, the president has no trouble getting things done. When Jack Welch at General Electric wanted the ice maker on the new fridge to be quieter, you can bet people in the engineering department paid attention. And when Jack wants to have a meeting with some key customers in Detroit, odds are that they'll make time for him—hey, he's the president of the whole company.

But in big companies, the president is far removed from the action. GE has tens of thousands of employees and only one Jack Welch. He's surrounded by people with their own agendas. He rarely gets to change the whole company.

The other day, one of my employees flew to Detroit. He had a special fare ticket and knew that his travel options might be restricted, but he got to the airport four hours early for his flight back. Another flight, virtually empty, was leaving in 15 minutes.

Jerry asked if he could fly standby. After all, the plane was flying back to New York anyway, it was empty, and it would cost the airline exactly zero to fly him back now, instead of four hours from now.

The gate agent said no. Do you think the president of the airline would have made the same decision? Do you think he would have wanted a valuable customer to spend four hours seething about the airline when he could have walked right onto a plane? Do you think the president would have wanted to see his valuable brand equity wasted in such a stupid way? I doubt it. But the president wasn't there. A gate agent having a bad day was there instead.

You, on the other hand, are the president of your company, and you have a lot of interaction with your customers. You make policy, so you'll never lose someone over a stupid rule. You can use this power and flexibility to make yourself irresistible to demanding customers.

4. *Rapid R&D.* They say you can't hire nine women to work really hard as a team and produce one baby in one month. Teamwork doesn't always make things faster—it can even slow them down.

Engineering studies have shown time and time again that small, focused teams are always faster than big, bureaucratic ones. Obviously, it's harder to pick a team of four great people than it is to assign two dozen randomly selected people to a project. And it's riskier too. So most companies don't do very well when it comes to inventing breakthrough products.

When they've got a problem at IBM, they assign a squadron to it. A squadron that sometimes creates bad ideas, like the PCjr. Barnes & Noble didn't invent Amazon.com. One smart guy named Jeff Bezos did. Microsoft and IBM didn't invent the supercool Palm Pilot. A much smaller company called US Robotics bought an even smaller company that developed it. Motorola and GE didn't invent the modern radar detector. Cincinatti Microwave did.

Big companies will almost always try to reduce invention risk by assigning a bureaucracy. You, on the other hand, can do it yourself. Or hire one person to do it. That's why you so often see great new ideas come out of tiny companies. They're faster and more focused.

5. *The underdog.* When Viacom or Microsoft or General Motors comes knocking, lots of smaller companies smell money. They know that the person they're meeting with doesn't own the company (that employee might be five or ten levels away from anyone with total profit responsibility) so

they're inclined to charge more. After all, they can afford it!

In addition to charging big companies full retail prices, smaller businesses are used to the hassles that big companies present. Purchase orders and layers of bureaucracy. Lawyers and insurance policies and more. So in order to deal with the big guys' inherent inefficiences, they have to plan ahead and build the related costs into their prices when dealing with the Viacoms, Microsofts, and GMs.

Big companies don't treat people very well sometimes, and people respond in kind. You, on the other hand, run a small company. So you can acquire the distribution rights to a video series for no money down. Or convince Mel Gibson to appear in your documentary for union scale. Or get your lawyer to work for nothing, for a while, just because you're doing good things.

6. *Low overhead.* You work out of your house, with a simple phone system, no business affairs department, very little insurance, no company car, and volunteer labor. If you can't make it *much* more cheaply than the big guys, you've either picked the wrong product (hey, don't go into the computer chip business!) or you're going about it the wrong way.

Even though big companies are big in scale, they still have to turn a profit on each and every product they sell or pay the consequences sooner or later. The guy who's losing money on every order shipped and trying to make it up in volume is in for a rude awakening.

By leveraging your smallness, you can often undercut bigger competitors, especially if the product or service you create doesn't require a lot of fancy machinery.

7. *Time.* The big companies don't have a lot of freedom in the way they deal with time. When you have to pay off the bankers every month, please the stock market, and grow according to schedule, there isn't always the flexibility to do things on the right schedule. Sometimes they've got to rush things, and other times they hold things back.

You, on the other hand, are a stealth marketer. No one is watching you. Sometimes, when it counts, you'll be ten times faster than the big guys. But when you can make a difference by taking your time, you will—and it'll show.

### A REAL-LIFE EXAMPLE OF TAKING ADVANTAGE OF YOUR SIZE (OR, HOW ID SOFTWARE COMPLETELY REDEFINED THE COMPUTER GAME MARKET AND MADE MILLIONS)

The software company that calls itself id is a classic bootstrapper. It makes violent computer games that run on home computers. Its software is usually developed by a group of 2 to 10 people, then published by a big company like Electronic Arts. It costs a huge amount to make a new product (sometimes more than a million dollars) but amazingly little to make one more copy (as low as 50 cents).

So the idea in computer game software has always been to spend whatever it takes to make a great game, then spend whatever it takes to get shelf space in the software stores, then hope and pray that you sell a *lot* of copies. One hit like Myst can pay all of a company's bills for years to come.

Id became famous for a game called Castle Wolfenstein. As an encore, the four guys who founded id decided to follow their own rules in playing against the big companies. They did it with a game called Doom.

They brazenly broke the first rule of software marketing—they gave Doom away to anyone who wanted to download it. *Free.* Millions of people did. It quickly became the most popular computer game of the year. It didn't cost id very much to allow someone to download the game, but the company wasn't receiving any income at all.

In stage two, id offered a deluxe version of Doom with more levels, more monsters, more everything. Partnering with a big guy (GT Interactive), it got the software into stores around the country. And sold it directly by mail order.

With a user base of millions of people, id got to call the shots. Instead of being at the mercy of the gatekeepers of distribution, it was courted by distributors and retailers. By inventing a completely different business model, a model in which it had nothing to lose, id redefined a business and won.

Take a look at all the attributes listed in this chapter. Id took advantage of the seven that help the bootstrapper and steadfastly avoided the five that help the big company. By redefining the game and playing on its home field, it trounced companies valued at more than half a billion dollars.

Here's how id used the seven bootstrapper tools:

1. *Nothing to lose.* The method used by id threatened to destroy software distribution as we know it. Which was fine with id, but not so fine with the guys at the big software companies. There's no way in the world they would have had the guts to do this themselves.
2. *Happy with small fish.* Because id didn't spend any money on advertising, and because it had developed the game itself, it didn't need Doom to be the best-selling computer game of the year to be happy. Even 30,000 sales would have been enough to make the venture successful.
3. *Presidential input.* Id had total consistency. The game was designed, marketed, licensed, and managed by the same four people. No miscommunication here.
4. *Rapid R&D.* There were no budget committees, no marketing schedules, no organizational charts to get in the way. (It's interesting to note that it took three times as long for id to create Doom's sequel. The game's makers had apparently forgotten what they had learned about rapid R&D.)
5. *The underdog.* Consumers love to root for the hippies at id. It makes them more likely to spread

the word and to buy (not copy) the final game.

6. *Low overhead.* There's no question that high overhead costs would have wiped these guys out.
7. *Time.* They knew they could ship when they needed to, instead of when shareholders demanded a new influx of sales. Because they controlled time, they could use it to their advantage.

The flip side of these seven attributes, of course, is what id *didn't* do. Here are some ways you can redefine the big guys out of the way on these five attributes:

1. *Distribution.* Never start by selling your product in major stores. Instead, use mail order. Or sell directly to just a few customers for lots of money per sale. Or use the Internet. The last step in your chain is traditional distribution.
2. *Access to capital.* Be cheap. In everything. Don't pick a business in which access to money is an important element. That means that building a cable service, a worldwide cellular phone system, or a chemical refinery probably wouldn't be on your list. When you do need capital, don't pay retail. Borrow from customers or suppliers. Find an equity angel. But don't borrow at 18 percent! And don't use your personal credit cards.
3. *Brand equity.* Position yourself *against* the brand leader. Be "cheaper than Frito's" or "faster than Federal Express" or "cooler than Levi's." The more the other guy's brand gets publicized, the more your positioning statement increases in value. Be brazen in the way you compare yourself to the market leader. Your story should be short, solid, and memorable.

You've probably already seen the Internet analogy. Almost every single dot com failure is due to studied ignorance of the points that lie above. Well-funded Net start-up companies didn't act like id. They figured that they had enough money to act like a big company. They were wrong.

4. *Customer relationships.* You don't have much of a chance of grabbing a big piece of an established company's business away from one of its good customers right away. It's just too easy for the company to defend against you. Instead, you can try one of these strategies:
   - The inchworm. Get a little piece of business as a test. Then, with great service and great products, slowly but surely steal more and more of the big guy's business. Focus on one client at a time. By the time the other guy catches on, it'll be too late.
   - Sell to someone else. Either to companies that don't already have a relationship with your target customer or to someone in a different department at your target customer's company—someone who doesn't know she's supposed to buy from any particular vendor. This strategy works at home too. For example, Saturn found that by marketing its cars to women, it could grab market share that might have automatically gone to Ford if the car-buying decision for couples had been up to the man.
5. *Great employees.* Not every employee is searching for great reputation, stability, and high pay.

> Amazingly enough, there are lots of people who would prefer a great adventure, stock options, flextime, a caring boss, a convenient location, or a chance to grow without bureaucracy. By focusing on what *you* offer that the big guys don't, you can capture your own share of greatness.

This e-booklet, like most business books, may seem a little intimidating. It's filled with countless things you must do right and countless things that can go wrong.

In fact, you may feel like giving up.

And I can guarantee that if you don't feel like giving up today, there will definitely be days when you *do* feel like giving up. Which brings me to the most important, most concrete, most useful piece of advice in the whole e-booklet. Simple, but indispensable: *Don't give up.*

Surviving is succeeding. You're smarter than most people who have started their own businesses, and smarter still than those who have succeeded. It's not about what you know or even, in the end, about what you do. Success is persistence. Set realistic expectations. Don't give up.

*You can't win if you're not in the game.*

A lot of this e-booklet is about survival. A true bootstrapper worries about survival all the time. Why? Because if you fail, it's back to company cubicles, to work you do for someone else until you can get enough scratched together to try again.

Bootstrapping isn't always rational. For some of us (like me), it's almost an addiction. The excitement and sheer thrill of building something overwhelms the desire to play it safe. This is an e-booklet about how to make the odds work in your favor, how to keep playing until you win.

# A Great Idea Can Wipe You Out

I started thinking about this e-booklet when I heard a public radio report about an American entrepreneur who was busy installing a string of pay phones in Somalia. His biggest expense, the announcer explained, was armed guards to protect the phones. I shook my head. Perhaps the only thing sillier would have been setting up a Pizza Hut franchise in the war zone.

There are enough obstacles to success in choosing your business. Overcoming a flawed business model shouldn't be one of them.

You need to start before you start. Figuring out which business to be in is one of the most important things you can do to ensure the success of your new venture, yet it's often one of the most poorly thought out decisions bootstrappers make.

Don't rush it. Don't just pick what you know, or what you used to do, or even what you dreamed of doing when you were a teenager. It's way more fun to run a successful vegetable stand than to be a bankrupt comedy club owner.

The first law of bootstrapping: *Great ideas are not required. In fact, a geat idean can wipe you out.*

What's a great idea? Something that's never been done before. Something that takes your breath away. Something so bold, so daring, so right, that you're certain it's worth a bazillion dollars. An idea you need to keep secret.

Great ideas will kill you.

Coming up with a brilliant idea for a business is not nearly as important as finding a business model that *works.* What's a business model? This classic MBA phrase describes how you set up a business so you can get money out of it. Below are some sample business models. See if you can guess which company each comes from:

1. Hire the world's best athletes as spokespeople. Buy an enormous amount of advertising. Use the advertising to get every sporting goods store to carry your products. Make your product overseas for very little money. Charge very high prices.
2. Find local businesses that care about their employees. Offer them a free water cooler if they allow you to refill it. Earn money by making deliveries on a regular basis.
3. Create the operating system that runs every personal computer in the world. Then use the power you gain from knowing that system, which controls the computers, to create software, Web sites, online services, even travel agencies.

Right. These are the business models of Nike, Poland Spring, and Microsoft. What makes these descriptions business models? They are formulas that take the assets of a company and turn them into cash. Without a business model, a company can get publicity, hire employees, and spend money—but it won't make a profit.

In a free society, the government doesn't control who gets the right to start a business. Anyone can do it—in most cases without a license, a permit, or a training course. This has one chilling implication: as soon as a business starts to make money, other people will notice, and they'll start a business just like it. This is called competition, and it usually keeps people from retiring at the age of 28.

A business model is a machine, a method, a plan for extracting money from a system. Here's another, simpler one: Buy ice cream sandwiches from a wholesaler. Put them in a refrigerated truck, drive them to the nearest beach, and sell them at retail. You make money on every ice cream sandwich you sell! (I did this in high school, by the way. I didn't make much money, but I did gain ten pounds.)

At first, this isn't such a profitable venture. But then add another layer: Buy cases and cases of ice cream sandwiches from a distributor, put them into 20 trucks, hire high school kids to sell them, and keep half the money. Suddenly, you're making hundreds of thousands of dollars a year.

Go one step further: Buy directly from the manufacturer, at an even lower price. Put your own label on the sandwiches. Then load up 200 trucks. You'll need a fleet administrator, insurance policies, and a thousand other things. But you've built a business.

At every step along the way, our fictional ice cream magnate made choices. He *chose* to bypass the supermarket. He *chose* not to advertise. He *chose* not to be the cheapest. He *chose* not to open an international branch. His path shows us all the key elements of a business model:

> *Distribution.* Where is it sold to the ultimate consumer? What middlemen are involved?
>
> *Sales.* Who is selling it for you and how are will they be compensated?
>
> *Pricing.* What do wholesalers and retailers and consumers pay?
>
> *Production.* How do you make it?
>
> *Raw Materials.* Where do you get what you sell?
>
> *Positioning.* How do the ultimate users position the product in their minds?
>
> *Marketing.* How do consumers find out about it?
>
> *Barrier to entry.* How will you survive when competitors arrive?
>
> *Scalability.* How do you make it bigger?

## GET OFF ON THE RIGHT FOOT BY STARTING THE RIGHT BUSINESS

Understanding the mechanics of a business model is essential before you start your business. Business models should have the following five attributes:

1. *They should be profitable.* You'd be surprised at how often people start businesses that lose money on every product and then try to make it up in volume! That lemonade stand you ran when you were seven was a great lesson—you need to make money to stay in business. The only thing is that when you're seven, your mom gives you the lemons for free.

Almost no business is profitable on the very first day. The baker has to buy ovens, pay the rent, and purchase ingredients. The consultant needs business cards and brochures. The question is: How long before profitability? Write down a target date. If you go way past it, figure out how to fix the problem or quit. Staying in a losing business because you've already lost a lot of money is a bad business strategy. Learn how to detect the factors that change a business from profitable to unprofitable. If you're contracted to deliver goods at a fixed rate but your suppliers can raise their prices on you, you've just become a very risk-taking middleman.

There's a great cartoon of a mathematician doing a complicated proof on the blackboard. The board is covered with all sorts of squiggles and symbols and then, at the bottom, it says, "And then a miracle happens," followed by the end of the proof. Business models can't depend on miracles any more than mathematics can. Every once in a while a business comes along that creates its own model. I can tell you that it's infinitely better to have one before you start.

Using my favorite ice cream example, the business just doesn't work if implicit in the business model is the fact that you're going to lose money on every ice cream sandwich and make it up by selling more. This sort of wacked-out thinking only works on the Internet, and even there it won't work for long.

2. *They should be protectible.* A profitable business, as mentioned earlier, is going to attract competitors. What are you going to do when they show up? If you're accustomed to making $1 on every ice cream sandwich you sell and suddenly there's a price war, you may make only a nickel. That's not good. It's called a *barrier to entry* or *competitive insulation.* Barriers can include patents (which don't work as well as most people think), brand names, exclusive distribution deals, trade secrets (like the recipe for Coke), and something called the *first mover advantage.*

Blockbuster Video, for example, created a huge barrier to entry when it opened thousands of video stores around the country. By the time the competition showed up, all the best spots were taken. As you can guess, this is a pretty expensive barrier to erect.

First mover advantage is the fond hope that the first person into a business, the one who turns it into something that works, has an advantage over the next one. For example, if you start mowing lawns in your exclusive subdivision, the second person doesn't get a chance to solve someone's lawn problem—you've already done that. Instead, the second guy has to hope that he can undercharge or overdeliver enough to dislodge you from your spot.

3. *They should be self-priming.* One of the giant traps bootstrappers fall into is inventing business models that don't prime themselves. If you want to sell razor blades, for example, you've got to get a whole bunch of people to buy them. Without a lot of razors out there that can use your blade, you lose. Is it possible to build a paradigm-shifting business with just a little money? Sure. It's been done before. But nine times out of ten, you'll fail. Why? Because you're gonna run out of money before you change the world.

Don Katz started a business called Audible that allows you to download books on tape from the Internet. So you can find a novel you've always wanted to hear, type in your credit card number, and listen to it. The challenge Don faces, though, is that you need to buy a $150 Audible player to hear it. Without the player, it doesn't work.

So, in order to sell the books on tape (which is how he makes money), he first has to sell the player (on which he loses money). This is a business model for brave people!

Our friendly ice cream vendor has a self-priming business. Sure, he has to lay out some cash for that first truck and for the first batch of ice cream sandwiches, but after that it ought to pay for its own growth. Sell $100 worth of ice cream for $200, and you have enough money to buy yourself *two* cases of ice cream.

4. *They should be adjustable.* Remember how excited everyone got about the missiles the U.S. used during the Gulf War? Here was a weapon you could aim *after* you launched it. You could adjust the flight along the way. You need a business model like that if you're hoping to maximize your chances of success. If you've got to lock it, load it, and launch it, you're going to be doing more praying than you need to.

A business model that relies on a huge number of customers or partners is far less flexible than one iyou can adjust as you go. Subway sandwich shops, for example, have more than 13,000 locations, each individually operated. If Subway decided that the future lay in barbecued beef, it would take a lot of persuasion to get each of these entrepreneurs to go out and buy the necessary equipment. They're pretty much stuck with what they've got.

Compare this to a local restaurant with one or two locations. If everyone suddenly wants fresh oat bran muffins, they'll appear on the menu in a day or two.

The ice cream business, which you're by now no doubt bored with, is totally adjustable. In the winter you can switch to hot chocolate. If business heats up, (sorry for the pun) buy more trucks…

5. *There should be an exit strategy (optional).* If you can build a business and then sell it, you get to

> extract the equity you built. If you can't sell it, all you get is the annual profit. There can be a big difference. About eight months after going public, Yahoo, for example, had equity worth about a billion dollars, but it made about  $2 in profit in the year after going public. That 500,000,000-to-1 ratio is huge, and it's unusual, and it doesn't last forever, but if your goal is a retirement villa in Cancun, the exit strategy it allows is very nice indeed.

Selling ice cream sandwiches offers no exit strategy at all until you reach a certain scale. When you're small, the business is just you. A competitor can buy trucks more cheaply than buying your business. But once you hire employees and build a brand and create trade secrets and systems, then you've built a business.

One of my favorite bootstrap businesses is the Stereo Advantage in Buffalo, New York. I was one of its first customers as a teenager in the 1970s, and since then I've seen it grow from a tiny one-room shop to a business with hundreds of employees, more than 4,000 commercial accounts, a service business, a catalog business, and a huge share of the stereo, home theater, cellular phone, and even casual clothing business in the markets in which it operates. Let's look closely at how the Advantage fares on the five rules of business models.

First of all, *it's profitable.* By relying on significant relationships with suppliers, it can buy cheap and sell sort of cheap. The profit on each sale isn't huge but the volume is, so there's plenty of money left over at the end of the day.

*It's pretty protectible.* In the beginning, of course, the Stereo Advantage had nothing that couldn't be easily copied. But back then, no one *wanted* to copy it. Now, twenty years later, the store has built a significant brand, a huge array of loyal customers, a talented staff, ongoing service contracts, and deep, mutually beneficial relationships with suppliers. Many, many companies have tried to go after it, but all have failed.

*It's somewhat self-priming.* The beginning was a very risk-filled time for the store. The owner had to buy inventory, take a lease, and hire staff without any guarantee that people like me would walk in and buy something on opening day. As it grew, though, each step has been self-priming. He brought in two televisions. When they sold, he brought in eight more. Now there are hundreds on display, without the risk that would have been incurred if he had filled the store with televisions before ever selling one.

*It's adjustable.* If the core of the Advantage's business is that it combines a solid reputation with a good location and trustworthy suppliers, then the business can be adjusted a great deal within those parameters. When portable telephones got hot, for instance, it was easy for Stereo Advantage's owner to talk to Sony and other suppliers and get some in the stores quickly. Same thing with home theater.

It's unlikely that the store could sell cars, or even profitably move into high-end stereos. But, within the constraints of its business model, it enjoys a great deal of flexibility.

Which leads to the exit strategy. It's terrific. Any number of national retail chains could buy the Stereo Advantage and use it as a template for rolling out a national chain. The owner has managed to create a management team that doesn't require his personal involvement in every decision. In many ways, it's the ideal business to sell: too small to go public, but permanent enough to last beyond its founder.

Ray Kroc, one of the greatest bootstrappers ever, took a completely different tack. McDonald's (which he didn't invent, by the way) was built with the intent to "scale" it—to make it bigger.

Ray found a restaurant in California, run by two brothers. They had a system. They knew how to make a great hamburger, super fries, and a wonderful milkshake. They had a look and feel that was easy to communicate. And a way to cook.

Ray decided that growing the business was the key to competitive insulation and profits. If he was the biggest, first, he would win. So he started franchising. He let others buy the right to build their own McDonald's. The franchise deal was simple: a little money up front along with a share of the profits forever in exchange for the brand name, a rulebook, advertising, and unique products.

Let's take a look at the McDonald's business model as Ray saw it in 1965 with regard to the five principles:

*It's a very profitable business.* The cost of making the products is low, and a newly prosperous American public, fueled by a baby boom, is happy to pay for them.

*It's very protectible.* The brand name is powerful, and becomes more so every time any McDonald's on earth runs an ad. And by being first in the market, it gets the best locations, which are worth almost as much as the brand. (Did you know that in 1997, on any given day, one out of seven Americans ate a meal at McDonald's?)

*It's completely self-priming.* The brilliance of Ray Kroc was that he had *other people* fund his growth by paying up front for a franchise. The more he grew, the more funding he got. This is a much harder trick to pull off today, but it's not impossible.

*It's not adjustable.* The giant risk Kroc took was that once people bought into his franchise, they didn't want it to change. So as long as it was working for everyone, everyone was happy. But what do you do with a location that just doesn't click? How do you introduce new products when competition comes along? And what happens when you open franchises in different countries? Perhaps the biggest hassle in the franchisor's life is maintaining flexibility when you have thousands of licensees around the world.

A recent episode is a perfect example of this lack of adjustability. Burger King, seemingly stranded in second place, reformulated its way of making french fries. With a huge national campaign, it attacked one of McDonald's core products. But McDonald's couldn't possibly respond with a new recipe quickly—the logistics are too cumbersome.

*The exit strategy was terrific.* Ray Kroc took the company public and became a very, very rich man.

Inventing a new business model is a very scary thing. The Internet is the home of scary business models, a place where new businesses open every day, many by people with no idea how they're going to make a living.

Yahoo, Yoyodyne, HeadSpace, iVillage—each of these Internet marketing companies came at the marketing equation from a different angle. Each looked for a scalable, protectible model that will allow it to extract excess profits. But many Net businesses (and businesses in the real world) ignore this critical rule: *Just because it's cheap to start doesn't make it a good business.* (I wrote this paragraph four years ago, long before the Net meltdown started. I was right then and I'm right now.)

This is a big danger for the bootstrapper. You don't have anyone telling you you can't start a business. And if you're investing your time and just a little of your money, there's not much to stop you from giving it a try. You don't need anyone's approval!

## JUST BECAUSE IT'S CHEAP TO START DOESN'T MAKE IT A GOOD BUSINESS

Soon after Staples started opening office supply superstores, an acquaintance of mine decided that he'd start his own business. The idea was simple: He would go to larger companies and offer to sell them office supplies at a low price. He'd make the purchases at Staples and mark up the prices for his customers.

At the beginning, there was enough difference between what these organizations were used to paying for office supplies from their dealers and what Staples was charging that he could make a small profit on every sale. But my friend's idea fails most of the business model tests. The biggest problem is that once he took the time to teach these customers that price is the most important thing to look for when buying office supplies, they'd find out about Staples and switch.

This was a cheap business. He could start it for free. But it was a bad business, a business not worth the enormous investment of time and thought it takes to get started.

Don't fall into the trap of doing the easy business, or the fun business, or the sexy business. In the long run, any failed business, regardless of how cool it seems, is no fun.

The *Inc.* 500 is a list of the fastest-growing small companies in the country—and almost all of them are bootstrapped. What's interesting is how varied the businesses are, and how boring many of them are. Yet the people who are running them are having the time of their lives.

The #1 company on the list makes toothbrushes. Among other companies in the top 25, there is a company that markets clip art, another that performs custodial services for corporations, and a third that markets and distributes vegetables.

## DO YOU WANT TO BE A FREELANCER OR AN ENTREPRENEUR?

As you consider different business models, you need to ask yourself the critical question above. This is a moment of truth, and being honest now will save you a lot of heartache later.

The difference? A *freelancer* sells her talents. While she may have a few employees, basically she's doing a job without a boss, *not* running a business. Layout artists, writers, consultants, film editors, landscapers, architects, translators, and musicians are all freelancers. There is no exit strategy. There is no huge pot of gold. Just the pleasure and satisfaction of making your own hours and being your own boss.

An *entrepreneur* is trying to build something bigger than herself. She takes calculated risks and focuses on growth. An entrepreneur is willing to receive little pay, work long hours, and take on great risk in exchange for the freedom to make something big, something that has real market value.

If you buy a Subway franchise hoping to work just a little and get very rich, you're in for a big disappointment. The numbers of the business model don't support absentee management of most Subways. You, the franchisee, need to be the manager too.

Contrast this with the entrepreneur who invents a new kind of photo booth, then mortgages everything he owns and borrows the rest to build a company with 60 employees in less than a year. If it works, he's hit a home run and influenced the lives of a lot of people. If it fails, he's out of the game for an inning or two and then, like all good entrepreneurs, he'll be back.

Both situations offer tremendous opportunity to the right person, and millions of people are delighted that they left their jobs to become a freelancer or an entrepreneur. But for you, only one of them will do. And you must figure out which one.

The entrepreneur is comfortable raising money, hiring and firing, renting more office space than she needs right now. The entrepreneur must dream big and persuade others to share her dream. The freelancer, on the other hand, can focus on craft. She can most easily build her business by doing great work, consistently.

This e-booklet is focused on freelancers and early-stage entrepreneurs. It's designed to show you how to thrive and survive before raising money. Because if you bootstrap successfully, you'll find that bankers, angels, and investors are far more likely to give you the money you need to grow.

The most successful bootstrappers don't invent a business model. They trade on the success of a proven one. There are countless advantages to doing this. Here are a few:

1. You can be certain that it can be done. If one or more people are making a living with this business model, odds are you can too.
2. You can learn from their mistakes. If the guy down the street overexpands, you can learn from that.
3. You can find a mentor. Somewhere, there's someone with this same model who's probably willing to teach you what he knows.
4. You're not alone. The horrible uncertainty of staring down a bottomless pit doesn't afflict the bootstrapper who is brave enough to steal a business model.

Don't get me wrong! I'm not proposing you do nothing but copy some poor schmo, word for word, step by step. Instead, copy his business model. If there's someone making a good living selling ice cream sandwiches from a truck, maybe you could sell papayas the same way. The business model is the same—same distribution, same competitive pressures, and so on. There's plenty of room for creativity when you bootstrap, but why not take advantage of the knowledge that's there for you?

## FOLLOW THE MONEY

Understanding the value chain of your business is a great first step in getting to the core of how you're going to succeed. A *value chain* is the process that a product goes through before it reaches a consumer. Starbucks, for example, starts with a coffee bean in Colombia that is so cheap it's almost free. Then they roast it and transport it and brand it and make it convenient and brew it and sell it. At each step along the way, Starbucks is adding value—making the bean worth more to its ultimate consumer. The more value you add, the more money you make.

When looking at a business model and the value chain it creates, I like to start from the last step:

1. Who's going to buy your product or service (called *product* for brevity from here on in)?
2. How much are they going to pay for it?
3. Where will they find it?
4. What's the cost of making one sale?

These four questions go to the critical issue of distribution and sales. The Pet Rock was probably the worst thing that ever happened to bootstrappers, because it led people to believe that they could turn a neat idea into nationwide distribution without too much trouble.

Nothing could be further from the truth. Getting nationwide retail distribution without money to spend on TV ads, a sales force or rep firm, and massive inventory investment is essentially impossible.

When you sell through existing retailers, *they* add a lot of the value that the consumer receives. They stock it. They make it convenient. They offer the reliability that their brand name connotes (it's guaranteed). And because they add so much value, they get to keep a lot of the profit. Look at it from their point of view. Macy's, for example, knows its going to sell 10,000 jackets this year. They can come from firm x or firm y. The Macy's purchasing agent is going to squeeze x and y as hard as she can to extract as much profit for Macy's as she can.

If you're selling a custom service or a high-priced good, consider selling it directly. That cuts out lots of middlemen, and leaves it in your hands. If you can make this self-priming, you've gone a long way toward making your company successful.

In most products, the single largest step in the value chain is the last one—those four items in that list. If you and your company handle that last step, you've earned the right to the profit that comes with it.

For example, an architect who brings in a contractor can expect to extract more profit (or savings for his customer) than the contractor who got the job and then brought in the architect.

Obviously, some service businesses lend themselves to direct sales more than consumer products do. What if you've got your heart set on bringing a fantastic board game to market? Are you doomed to be at the mercy of mass marketers and nationwide toy chains? Not at all. There are lots of places that sell board games that aren't Toys R Us. Catalogs, for example, can help you reach large numbers of consumers without taking personal risk.

So, to recap, let's restate each of the four questions that relate to the value chain:

1. Who's going to buy your product or service?

   *Define the audience.*

2. How much are they going to pay for it?

   *Do a value analysis to figure out what it's worth compared to alternatives.*

3. Where will they find it?

   *Determine how much of the distribution of the product you control, and what value is added by the retailers or reps you use.*

4. What's the cost of making one sale?

*Divide the cost of sales by the number of products you're going to make. You've just figured out whether they're worth selling.*

The ice cream example is fascinatingly simple when it comes to these four questions.

1. Who's going to buy your product or service?

   Hot kids on the beach!

2. How much are they going to pay for it?

   Buck each!

3. Where will they find it?

   Truck comes to them—we find the best locations.

4. What's the cost of making one sale?

It's the cost of the driver and fuel divided by the number sold each hour.

This leads us to Question 5:

5. What does it cost to make, package, ship, and inventory the item you just sold?

   If you know this, you can figure out:

6. What's your profit on one sale?

   And then you can guess:

7. How many sales can you make a month?

If we add in the cost of advertising, training, overhead, and the rest, you've just mastered the value chain. And you've discovered how you can make your business profitable.

For example, let's say it costs you $5,000 a month in overhead to run the machine that makes your products. The price of each product is $2 and the cost of each is just $1. If you can figure out how to boost your sales from 5,500 units a month to 6,000 units a month (an 11 percent increase), you've just *doubled* your profits.

Business model jocks call this "sensitivity analysis." It's a way of looking at the pressure points of your business. If you know these before you even open the doors, you'll have a much better understanding of what to focus on.

Here's another example. My father makes hospital cribs. He's got a big factory filled with punch presses and painting bays and other awesome equipment. The plant is old, but it's paid for. A sensitivity analysis on his business shows that keeping the factory filled isn't the smartest thing to do. That's because labor and inventory and cost of capital are far more expensive to him than the carrying costs on his plant. The way he can maximize his profits is by making sure that every dollar he spends on personnel turns into the maximum amount of profit. In other words, he has to either raise prices or increase productivity to make more money.

You're going to be running this business a long time. Spend an extra month to figure out what your business model feels like and save yourself some headaches later.

## EVERYONE IS NOT LIKE YOU

Novelists are encouraged to "write what you know." And the business you run should reflect what you know and love and are great at.

But don't fall into the trap of assuming that everyone needs what you need, wants what you want, buys what you buy. New Yorkers run around believing that everyone has a Starbucks on every corner, while entrepreneurs in Silicon Valley are certain that everyone uses a laptop all the time.

It's so easy to extrapolate from our own experience and multiply it by 250,000,000. Don't.

When I interview people for jobs, I always ask, "How many gas stations do you think there are in the United States?" Not because I care how many gas stations there are, but because it gives me an insight into how people solve problems.

The vast majority of people who answer this question (I've asked it more than 1,000 times over the years) start their answer with, "Let's see...there are 50 states." They then go on to analyze *their* town, figure out how many gas stations there are, and multiply from there.

While this is better than some approaches, it is a ridiculous way to answer the question or to plan a business. North Dakota is not like Michigan! And your life, your neighborhood, your friends, and your needs are not like everyone else's. The best way to answer the question is to start with a scalable metric—either cars (how many cars lead to how many stations) or, surprisingly, how many big gas companies there are. Either one will get you to a quick and defensible analysis.

Instead of starting the business that makes stuff for people just like you, do some real research. Go to the library. Don't invent something that requires you to have a handle on the purchasing habits, the psychographics, and the changing demographics of the whole country. Instead, find a thriving industry and emulate and improve on the market leader. She's already done your homework for you.

## DON'T START A BUSINESS WHILE SHAVING! *(A CAUTIONARY TALE IN SEVERAL ACTS)*

Staring into the mirror this morning, using my brand-spanking-new Norelco razor, it occurred to me how easy it would be to start down the road to ruin while in the bathroom.

Imagine that our young hero is shaving and notices that the blades on his lift-and-cut razor aren't as sharp as they used to be. His best friend, he remembers, is a metallurgist, and maybe there would be a neat, inexpensive way to sharpen the blades in an electric razor.

A day of research in the drugstore and on the Web confirms what he already knows—there are a couple of razor-sharpening devices on the market, but they are hard to find, expensive, and not very good.

The entrepreneur arranges a business lunch with his friend. He extracts a promise to keep the big idea a secret, then describes his great insight: a low-cost razor-sharpening device that would work well.

He's got a business plan. With projections, ad slogans, a corporate mission statement, a rollout schedule, the whole thing.

"Look," he says, "there are more than five million electric razors out there. If we can sell to just ten percent of them, that's five hundred thousand units! Figure a profit of four dollars a unit and we're rolling in dough."

Following the instructions in the business books and magazines he reads, he's figured out an exit strategy and already has some angels in mind to finance the business. Right there, on a handshake, they agree to a partnership. The metallurgist will invent the device and own half the company. The entrepreneur will take it from there.

One month later, armed with plans, the entrepreneur heads for the best patent attorney he can find. He pays a $5,000 retainer and starts the process.

Then it's off to find a manufacturer. Intending to be conservative, he decides to build only 10,000 devices, noting, though, that the manufacturer needs to be able to ramp up on a moment's notice when this thing takes off like the Chicago fire.

I know what you're thinking. Wait, it gets worse.

Doing some math, our hero realizes that he needs $40,000 to pay the manufacturer. Also, he'll need to hire some sales reps to carry his item. And he figures that a TV commercial (which will run just once, because he's on a budget) will help jump-start the distribution.

Suddenly, he needs $400,000. And he's doomed.

Actually, he was doomed that first day in the bathroom.

The cost of sale is enormous. Getting the first person to buy the first sharpener is unbelievably expensive. It's a retail item, sold in a high-volume location (the drugstore). People don't know it exists and they're not sure they want it. So you have to pay a bunch of money to let people know they need one, and then you have to share a lot of the profit with the retailer.

Consumer products are almost impossible to bootstrap. Especially consumer products that need to be sold in thousands of drugstores in order to be profitable. Take a look at your local CVS—the number of bootstrapped products there is small indeed.

It gets worse.

In order to sell a product like this, it's got to be in stock when the customer gets to the store. So you'll need to make far more than you expect to sell in the next month or so, just to fill store shelves. But of course, retailers are not going to pay you in advance just to fill their shelves.

The biggest insult to the bootstrapper ethic is the fact that every customer needs only *one* for the rest of his life. That's right, after going to all the trouble of selling this item, our razor entrepreneur will never ever sell a replacement. The cost of sale is not leveraged across many sales. Hey, he won't even get the benefit of word of mouth—would you tell a friend about an invention like this?

Unfortunately, the belief that the successful entrepreneur must have in himself is a double-edged sword. Belief in a dumb business model can force you down a road that will eat away your time and your money. All the trappings of a successful business—business plan, marketing plan, financeplan, PR agency, patent lawyer, and articles of incorporation—can hide the real flaws behind a business.

And what about our hero? He gave away half the company to someone who didn't do much work and who was easily replaceable. Left with 98 percent of the work but just 50 percent of the company, he's never going to be able to raise enough money to launch this business. Lucky for him he doesn't have the cash in his retirement account—he might have been foolish enough to take the money out.

Successful bootstrappers know this: Your business is about the *process.* It's not about the product. If you structure a business model that doesn't reward you as you proceed, it doesn't matter how much you love the product. Pretty soon there won't be any product to love.

The bootstrapper is focused on finding a market that will sustain the process. A platform that responds to the work you do. With a business model that works, the deal is simple. You invest time, effort, and money. In return, your market responds with sales, cash flow, and profits.

But, you might be thinking, don't some entrepreneurs turn big ideas into big companies? What about Steve Jobs or Bill Gates or Phil Knight or Ted Turner?

What about them? They picked giant business models and got lucky. Someone had to. The market was ready, and they won. But their success is the exception that proves the rule. For every Bill Gates there is a David Seuss, a Phillipe Kahn, and 100 other super-talented, hard-working visionaries we've never heard of.

You can pick any business in the universe to bootstrap. I recommend picking one that's friendly to bootstrappers, that wants you to succeed, that will likely give back what you put in. It's easier to tell you what to avoid than to point you in the right direction. Businesses that are also hobbies usually cause bootstrappers the most trouble: restaurants, toy design and invention, creating gourmet foods.

On the other hand, mail order, consulting, acting as a sales rep or other sort of middleman, all work great. So does focusing like a laser on a very obscure market that is growing fast.

Maybe it won't make you as famous as Spike Lee or Marc Andreesen. That's okay. It will make you happy.

## HOW TO BOOTSTRAP A BUSINESS THE SMART WAY

I have a friend who can do miraculous things with fabric. I've seen her turn leftover clumps of velvet into a show-stopping shawl. And she adores kids.

She decided to break into the toy business. For four years she tried to sell a better diaper bag to Fisher-Price or a new kind of catch toy to Mattel. She went to the right trade shows, got the right meetings, was careful about whom she associated with, how she positioned herself, and how she pitched her goods. She watched her expenses like a hawk. And she kept 100 percent of the equity.

There were some close calls. Fisher-Price starting going to contract on the diaper bag. Mattel asked for more details. But each time, at the last minute, the company turned her down.

My friend eventually realized that she was competing in a world where she wasn't wanted. Toy companies work hard to keep inventors away, because they're scared of lawsuits and the hassles of dealing with outsiders. They're not overflowing with happy, Tom Hanks–like luminaries, looking for the next Big Idea. The toy industry is a business, and a cutthroat one.

She had made a mistake. She built a business without a business model. She tried to invent a process that could turn into a living, to become a freelancer with a royalty stream in an industry where there were very, very few role models. She could still design her clothes and bags as a hobby, but she knew it wouldn't give her enough income to make a living. She had to find another way.

She took a look around and realized that the book business publishes 50,000 new ideas every year, relies 100 percent on outsiders, and hires editors who look for ideas from the outside.

Armed with this knowledge, she spent some time getting to know her customer base. Here were thirty major publishers, all with money, all eager to buy something, all willing to pay money in advance.

Here was a totally different industry in which the process she had worked on for four years would work. The system of meeting people, inventing products, licensing them, and earning a profit—the system she had tried to build in the toy business—was working every day in the book business. Different products, same job.

After six months of hard work, she was able to get meetings with three publishers who shared her vision of the market. She listened—hard. She worked to understand what they wanted, what their customers wanted, how the industry worked.

Without spending any money, Lynn was able to understand the market. She was able to invent some concepts for books that she thought might sell. And then she was ready to get serious. So she found illustrators and researchers who could capture the messages she was trying to communicate. And she didn't give them equity—instead, she paid them a share of the front money.

One publisher decided that her concept for a calendar was worth a shot. They paid her a small advance and published it. Two years later, My friend's company has more than 2,000,000 copies of their work in print. Her calendars are often at the cash register at Barnes & Noble. She's been hired as a spokesperson by a nationally marketed brand, she makes products she loves, she gets fan letters from people all over the country, and she's having fun.

Did she succeed because the her calendar idea was the most unique, original idea in the history of publishing? Or because she was a skilled novelist? Not at all. She succeeded because she understood what her market wanted and because she persevered for years and years to build her reputation. She was careful with expenses, didn't waste her equity, and set herselp up for success while protecting against failure.

All without a bank loan. All without a patent lawyer. All because she picked the right business model, selling a product in a way that made sense to people who wanted to buy it.

## THE SHEER JOY OF GETTING IT RIGHT

As Lynn's story illustrates, when you're in the right place at the right time with the right product, you can make it work. A lot of what I'm talking about in this e-booklet might dissuade you from taking the bootstrapper journey. So many opportunities to fail, so few to succeed, it seems. But when it clicks, the magic that takes over is intoxicating. Your work, embraced by a stranger. It's a rush.

Back in 1986, when I was first starting out, I sent a direct mail letter (by Federal Express) to forty different companies. Each firm was offered the chance to buy advertising in a book I was doing—for $1,000 a page, two pages minimum. I had figured in a huge profit margin, so all I needed were a few positive responses to make it worth the effort.

Within 48 hours, the phone started ringing. Within thirty days, I had sold more than $60,000 in advertising. It's the thrill that comes from this kind of success that keeps you going. I'm not sure that the idea behind the advertising book was the most insightful or profitable I'd ever had. But by persevering, by putting concepts in front of people in a solid, benefits-oriented way, I had succeeded.

Another time, I had the idea to create SAT prep books. The proposal went to about a dozen publishers. Most of them were a bit interested, some called for face-to-face meetings, and one or two seemed on the verge of making an offer.

We proposed to the publishers that we would auction off the right to publish these books, a common practice in the publishing world. The publisher who paid the most money at the auction would get the right to be our partner in bringing the books to market. Then an editor from Doubleday called. "Cancel the auction," she said. "What will it take to buy it right now?"

She made us an offer of about $150,000. I said it wasn't nearly enough. I was bluffing. She doubled her offer. "Nope," I said, sweating now. After two long days of her bidding and my saying no, we ended up at just over $600,000.

You'll have days like this. You'll fail and be rejected and struggle, and then you'll have days like this. Because you're a determined, focused, cheap bootstrapper intent on creating first-rate products. When they come, savor them!

## ONE GOOD REASON NOT TO PLAN SO MUCH

Remember when I said I like to ask people how many gas stations they think there are in the United States? Well, the worst answer (and the main reason I ask) is, "I don't know."

My response is, "I know you don't know. I want you to make a smart guess."

Nine times out of ten, people refuse, in one way or another, to guess. They don't want to be wrong.

Most people hate to be wrong. They hate to make a statement (or, even worse, to write something down) and then be proved wrong. They don't like to buy the wrong car, vote for the wrong candidate, wear the wrong shoes.

Starting a business is the most public, most expensive, riskiest way of all to be wrong.

Faced with all the sensitivity analysis and business model mumbo-jumbo I talk about in this section, you might find it easy just to give up. "I'm never gonna be as smart as Bill Gates, so I give up!" Yeah, well, Bill Gates isn't so smart. Bill Gates thought the Internet was a fad. Bill Gates launched three database systems, all of which failed.

There's never been an entrepreneur with a crystal ball. There's no way to know for sure whether your business is going to work, whether your targeted customers will buy, whether your choice of technology is a good one. You're going to be wrong. Get used to it!

In the face of this uncertainty, it seems to me that the very worst thing you can do is fail to try. I went to business school at Stanford, which prides itself on being very entrepreneurial. Of the 300 people in my class, at least half publicly proclaimed that they were going to start their own businesses sooner or later.

Now, twenty years later, only about 30 of us have actually done it. The rest are still waiting for the right time or the right idea or the right backing. They're waiting for an engraved invitation and some guarantee of success.

Silicon Valley has been a tremendous boon for this country. One reason is that it has created a culture where being wrong is okay. Being wrong can even make you rich in the Valley! But in most other places, in most other families, the idea of betting your livelihood on something that might not work is a little scary.

Here's my best advice to you: Stop planning and start doing.

You don't have to quit your day job. But you do have to get out there and do it. The more you do, the more you do. Doors will open. Opportunities will appear. Your model will change, your reputation will increase, you will become a magnet for smart people, good customers, and investors. But none of this will happen if you stay inside and keep planning.

Build your business. One day at a time, one customer at a time. Lower your downsides, focus on the upsides, and start building. But start.

# Doing the Math

If you don't run out of money, you get to keep playing. If you end up with more money than you started with, you win. If you *plan* for the money, and expect it, then you can avoid dwelling on it and get back to business.

Most entrepreneurs don't think about money too much when they decide to start a business. When's the last time you asked someone at a cocktail party what he does, and he responded, "Every month, I generate more cash than I spend"?

Instead, we're focused on marketing or sales or product development or hiring or firing or (God forbid) legal issues. Rarely do we deliberately plan for the money.

In some ways, this is a great policy. Money is a tool, not an end in itself for most bootstrappers. If you wanted to make big money with little risk, you'd go to Wall Street or get a fancy job for a conglomerate.

But without money, there is no business. Run out of money and your creditors will shut you down, your employees will leave, and your spouse will worry.

On at least three occasions, I've come within a few dollars of going bust. And I can tell you that it's stressful, it's distracting, and it's no fun. I also know that in each case, if I had planned for the money, it wouldn't have happened.

Planning for the money doesn't have to be complicated. But you do have to be consistent and, most of all, honest with yourself.

Start with the expense side. Make a list of every fixed expense you face month after month, no matter what. Rent. Salaries to other people. Leases. Whatever. Then add to this the *actual* average variable expenses you've faced each month over the last six months. Are you regularly spending $300 a month on travel? Put that down.

If your variable expenses vary (hey, that's no surprise!), then try to get a handle on what percentage they vary every month. For example, if the money you spend on freelance designers over six months looks like this:

| | |
|---|---:|
| January | $1000 |
| February | $2000 |
| March | $500 |
| April | $0 |
| May | $2000 |

| | |
|---|---|
| June | $500 |

then you have an average of $1,000 a month, but a variation of as much as $1,000 a month either way.

As you build your expense analysis, create three columns:

| MOST | AVERAGE | LEAST |
|---|---|---|
| $2000 | $1000 | $0 |

So in this case, you'd enter

$2000 $1000 $0

Now, tally up your three columns. You've just figured out the *best* and the *worst* you're ever going to do in expenses.

Multiply your three numbers by 9. Now you know how much cash you need to last you nine months *if* all of your expenses are maximized *and* you have no revenue.

But of course, you *do* have revenue. It can be unpredictable. So, make two more lists. In one, list all the guaranteed revenue you've got contracts for over the next nine months. In the other one, list all the *likely* sources of revenue you expect over the next nine months.

Contracted revenue

| | |
|---|---|
| June | $2,000 |
| July | $18,000 |
| August | $32,000 |
| September | $0 |

Likely revenue (not counting contracted revenue)

| | **Minimum** | **Expected** | **Maximum** |
|---|---|---|---|
| June | $4,000 | $5,000 | $15,000 |
| July | $10,000 | $15,000 | $40,000 |
| August | $4,000 | $5,000 | $15,000 |
| September | $4,000 | $5,000 | $15,000 |

Don't kid yourself on the upside. It's one thing to be positive and optimistic in your daily life. But be a superrealist when it comes time to do revenue projections. In fact, be a pessimist. Being pleasantly surprised by an increase in revenue sure beats the alternative.

## AN ACCOUNTING ASIDE

Later, when we talk about accountants, I'll go into this. But for now, let's be clear: Revenue is revenue when you *see* the money. Expenses are expenses when you *pay* the money. Cash is king and that's what you keep track of. Meaning: If you do some work but don't get paid for 90 days, you record the revenue as coming in in 90 days, not on the day that you finished the work.

Not built in to any of the numbers you've just listed is money for you to live on. That's on purpose. Once you realize that changing the amount of money you need to live on can dramatically increase your chances of success, you have an important choice to make: How much are you willing to sacrifice for the business?

One surefire way to determine if a bootstrapper is going to succeed or not is to check out how she changes her lifestyle when she starts the business. If everything is first-class—the office, the car, the mortgage, the vacations—then my bet is that the entrepreneur is too focused on taking from the business and not nearly focused enough on building it.

Jeff Bezos was a mover and shaker on Wall Street, working at the intersection of computer science and finance, when he decided to start an Internet business. Instead of maintaining his lifestyle in one of America's most expensive cities, he packed up his car and drove with his wife to a cheaper city with cheaper staffing costs where he pursued a much cheaper lifestyle. This decision was probably the most important in the success of Amazon.com. Without it, he never would have had enough money to make it to the day when investors started throwing money at him.

Are you willing to move? To sell your car and buy a junker? To cut major personal expenses so you have more to invest in your business? These are critical decisions, and you need to make them with your family *before* you run out of money. Because adjusting your expense cycle then is way too late.

Here's a quick look at why saving money in advance is so much more profitable than borrowing it later.

In this chart, you can see what the bank balance of fictional company would be under two savings scenarios. In the first, the company cuts costs so it can bank $5,000 a year for each of the first five years, then withdraws $5,000 a year in the next five years when it needs to invest in the business. In the second, it saves nothing in the first five years (meaning it spends every bit of the profits) and has to borrow $5,000 a year in each of the second five years.

| **COMPANY A** | | **COMPANY B** | |
|---|---|---|---|
| Saves | Balance | Borrows | Balance |
| 5000 | $ 5,000 | 0 | 0 |
| 5000 | $ 10,400 | 0 | 0 |
| 5000 | $ 16,232 | 0 | 0 |
| 5000 | $ 22,531 | 0 | 0 |
| 5000 | $ 29,333 | 0 | 0 |
| -5000 | $ 26,680 | 5000 | $ (5,000) |
| -5000 | $ 23,814 | 5000 | $ (10,900) |

| | | | |
|---|---|---|---|
| -5000 | $ 20,719 | 5000 | $ (17,862) |
| -5000 | $ 17,377 | 5000 | $ (26,077) |
| -5000 | $ 13,767 | 5000 | $ (35,771) |

The difference is amazing. A $5,000 annual difference turns into nearly a $50,000 difference in the bottom line. That's the difference between success and failure for most businesses.

Once you've come up with your personal expense number, you have what you need to do some smart planning. You've got a nine-month look at your worst-case expenses, your guaranteed income, and your upside on both counts.

Do you have enough money in the bank to make it if *everything* goes wrong?

If you do, congratulations. Go run your business with focus and with confidence. Stick with the high road and do the things you need to realize your business plan.

If not, don't despair. You need an alternate plan. A plan that allows you to spend a percentage of your time each week on low-risk revenue sources. A way to bring in freelance income while you build your core business.

There are a lot of advantages to the multiple income source strategy. First, having a cash flow is a good feeling. It makes you more stable, more confident, more likely to have a successful business. Second, and just as important, those freelance gigs can easily turn into things that will help your core business.

Let's say, for example, you want to develop a career as a stand-up comic. You know it will take many months of hard work before you can expect serious income. Along the way, why not make money doing publicity for some of the clubs? Doing that can generate some money, teach you to deal with the media, and give you access to club owners. No need to charge a lot for your services—even an extra $100 or $200 a week supplementing your budget can make a big difference.

Again, the time to develop a multiple income source strategy is *not* when you run out of money. Then it will be too late. Right now, plan for the money.

While I'm a huge fan of the multiple income source strategy, there's an important caveat: Don't let the sideline take over (unless you want it to). It's so easy to get focused on the short term, on the "now," that you ignore the reason you started the business in the first place. Suddenly, it's five years later and you haven't done a stand-up gig for years. Your comedy career died the day you focused all your energy on the sideline instead of the dream.

## KEEPING SCORE

Every month, you need to tally up the numbers you care about. Write them down. Share them with your spouse and board of advisers. Here they are:

Cash In This Month
Cash Out This Month
Money in the
bank right now

At the current rate,
how many months
until no cash left

## ONE LAST THING

Debt. Debt is so seductive. You can lease computers. Use your credit cards. Mortgage your house. Borrow from relatives. Should you do it?

Let me break the debt down into two groups: professional and family.

Professional debt is expensive. 18 percent on credit cards and leases, less on a mortgage. Expensive debt carries an interest expense that can make the problem you're trying to solve even worse. Basically, if you're borrowing money to pay the interest on borrowed money, you're dead.

My rule of thumb is that debt is bad. Available credit, on the other hand, is good. If you've got a great opportunity and *need* access to debt, you want to be able to know it's available. But living with debt regularly will enrich everyone at the banks long before it will enrich you.

Did you know that the average family in this country is carrying more than $3,000 of expensive credit card debt? This is complete lunacy. If the debt is being used to accelerate the collection of life-enhancing junk that most people buy, it's like ripping a hole in your bank account and watching the money ooze out. Borrowing to build is the only borrowing you should do!

You should borrow money if the borrowed money is going *directly* into something that will generate profits exceeding the interest. For example, if you have a hot new device and 500 orders for it, but you can't afford to buy the parts you need to build the things, go ahead and borrow. You know you've got the sales and you'll be able to pay off the debt in 90 days. That's good use of professional debt.

On the other hand, if you're borrowing on spec, building something that you hope will sell, you've got to have the guts to stare bankruptcy right in the face. Because if you're wrong, if the opportunity disappears and the debt doesn't, you're stuck.

Even worse, if you're borrowing to pay your living expenses and salaries, trying to keep the business going just a few more months until it clicks, you're taking a similar risk. This is more pressure than yours truly can handle, but you might have a better stomach than I do.

Now, even though I've called this sort of debt "professional debt," it's almost certainly personal. Meaning that you, the boss, are *personally* on the hook for the debt. Real businesses never personally guarantee anything. When Lee Iacocca ran Chrysler, he didn't have to put up his car when the company floated a bond offering! That's why companies incorporate.

Borrowing money personally to fund your corporation is risking your personal credit. And if you're not careful, this can make it easier for other creditors to "pierce the corporate veil" and turn the actions of your company against you personally. And that's bad.

When I started, I promised myself I wouldn't personally guarantee anything, including debt. This makes it much harder to get going, but in the long run gives you a level of insulation that makes your business easier to live with. Once again, it's up to you. But once you choose a policy, stick with it.

If you personally guarantee your business, all the money you earn, from this business or any other, belongs to the bank. That means the stakes have gotten *dramatically* higher. You can't just watch this business fail and walk away. If it fails, you lose it all. And that means it will take much, much longer for you to bootstrap again.

Is your business such a sure thing that you're willing to bet everything you own on it?

Family debt is something else entirely. When I say family, I mean friends, college roommates, parents, anybody crazy enough to put some money up.

Right from the start, you've got to be clear about *why* these people are putting up money. Is it a chance for them to make some great money by investing in your business? Or is it just a vote of confidence in you, with no real expectation of repayment if you fail?

You must get all the expectations down in writing. Figure out in advance what the interest rate is, what's the term. Decide what the collateral is if you can't pay it back on time. You can really screw up some important relationships if you borrow money without both sides understanding what's at stake.

Early in my bootstrapping career, I borrowed $10,000 from my mom. As you can guess, there was no interest and I'm not sure my mom ever expected me to pay her back quickly. But I used the money to invest in a new computer system, which led to significantly increased sales. She got her money back within six months.

Lucky for me. What if I hadn't been able to pay her back? If our expectations hadn't matched, there would certainly have been bad feelings—and we all know how quickly misunderstandings about money can damage a relationship.

Later, we'll talk about how to raise money for your business, not for you. But for now, the things to remember are:

1. Don't borrow money just to cover expenses.
2. Try to avoid personal borrowing at all costs.
3. When you borrow money from friends, spell out the terms.

## IF YOU HAVE SALES, YOU HAVE (ALMOST) EVERYTHING

Be sales-focused. A well-financed company can afford to build a product and hope customers will come buy it. You can't. Sales before investment!

A business with plenty of sales can almost always get funding. A company with plenty of sales can almost always fix its other problems. But a company without sales is close to dead.

In chapter 2, I spent a lot of time talking about self-priming businesses. That's because a self-priming business addresses most concerns of the bootstrapper. It brings in sales before you get in too deep. It scales itself—the money you bring in can be used to garner even more money.

Sooner or later, your business comes down to extracting cash from other people or businesses and keeping as much of it as you can. It's tempting to focus on your product, your systems, your policies, the writing on page 7 of your brochure. But none of those matter if you don't have sales.

The first question to ask yourself: "Who's going to pay for this?" Whatever you create has to be so compelling that people will switch from their current solution to whatever it is that you're selling.

Please, please don't underestimate how important this is. Once you have sales, you're in the driver's seat. You can dictate whom you buy from, whom you hire, just about everything about your business.

Don't believe me? Take a look at the relationships that already exist in business. Barnes & Noble sells lots of books. That's why publishers come and beg them to carry their books. Disney gets people to wait in line to attend their movies. That's why there's a long line of actors and directors waiting to do a movie for Disney. The customer is king because the customer has money. If you figure out how to get the money, you become the king!

Here are the two most important sales rules you'll need:

- Sell something that people want to buy (and know how to buy!). This sounds obvious, but in practice, it's not. The Edsel, for example, or jerky-flavored banana chips require a missionary sale, a level of persistence and patience that might not be worth your time. Microsoft has introduced dozens of products that have failed miserably, and so has Disney, Apple, Motorola and lots of other well-respected (and some long-gone) companies.

Figuring out what people want to buy is a two-step process. The first step is figuring out what they're *already* buying. The second step is getting people to switch.

Let's say, for example, you've got a great idea: welcome mats for corporations.—custom-made with their logo, perfect for making an even bigger impression on visitors.

Guess what? Most companies don't have someone in charge of buying this product. And if they do, that person doesn't have a budget for an item like this. And if she did, she'd hesitate because she's never bought anything like it before. What if her boss hates it? What if someone trips and sues the company? It will require bravery to buy this product, and guts and persistence for whatever salesman wants to sell it. In a nutshell, companies don't know how to buy a welcome mat, and so if you want to sell one, you've got your work cut out for you.

Do you have Post-it notes on your desk? If so, it's only because 3M was persistent enough to spend years marketing them before they caught on. The problem was simple: they were selling something no one knew they needed. Office supplies are sold almost entirely on a reorder basis: when you run out of something, you buy more. But no one had any Post-it notes, so they never ran out.

While a Post-it note is a great product, the company had a serious problem. There was no one in each prospect company assigned to purchase such an item, and the cost of the sale was very, very high compared to the anticipated profit.

The solution was elegant. The chairman of 3M had his secretary send a case of Post-it notes to the secretaries of the other Fortune 500 chairmen. And they started using them. Suddenly, people from the other companies were running around saying, "Hey, where can I get some of these?" And when they ran out, they had to reorder.

This was a risky bootstrap solution from a big company. If it hadn't worked, 3M would have folded the product. It's so much easier to sell something that people are already buying.

Which leads to the second question: "What will it take to get people to switch from what they already use to what I sell?"

Believe it or not, the answer is almost always *not* money. Why? Because a trusted supplier will lower her rates enough to make your offer less interesting. Why? Because switching to a low cost supplier who does a bad job can cost the purchaser his or her job. Why? Because most products are purchased because of *what they do, not what they cost.*

Usually, you need to make a product that is significantly easier or more effective. Easier to buy. Easier to use. Easier to teach other people how to use. More effective at solving the problem.

It didn't take long for the ball-point pen to replace the fountain pen, did it? All you had to do was use it once to see how much more convenient it was.

It took only 10 years for the word processor to completely wipe out the billion-dollar typewriter industry. Even though a word processor costs 5 to 50 times as much as typewriter, the ease was far greater.

If a new florist opened on the corner of your block, making it much easier to buy flowers for your husband on special occasions, you'd switch in a minute. When the fax machine made it faster to send a note to someone, companies spent billions to put them in offices around the country.

Does this principle work on a local level? If you're opening a dry-cleaner or becoming a freelance writer or offering accounting services, does this work for you?

You bet. A combination of more convenience, better service, aggressive pricing, and better results will make you irresistible to some people.

It won't work for everyone. Some folks may never switch. But that's okay. You don't need everyone. Just enough to keep you busy and the cash flowing!

- Own the Sales Process

"If a man builds a better mousetrap, the world will beat a path to his door."

No crueler words have ever been spoken. Most entrepreneurs dream about this adage being true. The fact is that it never is.

Jane Metcalfe and Louis Rossetto created *Wired,* arguably one of the best-conceived and most influential new magazines of the past 20 years. And it took them 2 years to get the first issue out. They spent 2 years, full-time, raising the money they'd need for that first groundbreaking issue.

If all it took was a better mousetrap, they would have been done in about a week.

I'm not telling you this to discourage you. Far from it. If it were easy to sell, then everyone would do it and there'd be no room for your new business. No, this is a lesson you need to learn so you'll focus on the right issue.

Pick an industry—any industry. What you'll discover is that the people with power are those who either do the buying or make lots of sales. Steven Spielberg is the most powerful man in Hollywood because he can do both. Microsoft is viewed with awe because it's so good at doing both.

Follow the money! The money leads to power—the power to make decisions, the power to build the business you want to build, the power to hire and fire and shape and dream and succeed.

The pariahs who run companies that promise entrepreneurs that they will patent and protect and then license their great idea are taking advantage of people who want to delegate selling to someone else.

These companies prey on eager bootstrappers who have neat ideas and a few extra dollars. They take your dollars, do very little, and leave you broke and disillusioned.

For too many bootstrappers, sales is an afterthought. It's the thing you do that allows you to do what you really want to do. Big mistake. In fact, sales is the reason for your business to exist. If you can't sell what you make, you can't help anyone, influence anyone, or make anyone's life easier, better, or more convenient. If you can't sell what you make, you can't pay yourself. You're finished.

Here are charts showing where the monetary value is added at every step along the way for three different products:

| | |
|---|---|
| A Pair of Sneakers | |
| (based on $80 selling price) | |
| Materials: | $1 |
| Assembly labor: | $3 |
| Shipping: | $1 |
| Price to retailer: | $40 (manufacturer keeps $35 for sales and marketing) |
| Price to consumer: | $80 (retailer keeps $40 for selling the shoes to you) |

No doubt that the person in Scarsdale who sells the sneakers has a whopping advantage over the person in China who sews them.

| | |
|---|---|
| Life Insurance | |
| (share of first two years' worth of premiums, assume $400 a year) | |
| Amount invested by company to pay your heirs when you die: | $300 |
| Kept by company for marketing and overhead: | $100 |
| Kept by salesperson for selling it: | $400 |

It's the salespeople who profit from life insurance. That's why there are so many of them!

| | |
|---|---|
| Best-selling Book | |
| (based on $20 selling price) | |
| Author: | $1.70 |
| Agent: | $.30 |
| Printer: | $1 |
| Price to retailer: | $12 (publisher keeps $9 for sales and marketing) |
| Price to consumer: | $20 (bookstore keep $8 for selling it to you) |

Note that the agent who sells the book (sometimes in just a few weeks) gets 15 percent of the author's share, even though the author might have spent years writing the book. Why? Because selling is hard. And those who can sell can charge a lot for their skill.

Many bootstrappers are tempted to delegate the sales process to a representative, an agent, or an employee. Big mistake. The sales process—regardless of your business—is the heart of your business. As long as you control it, you control your company. Without it, you are at the mercy of whomever you delegate it to.

Once you have a cash flow from sales, you'll be amazed at how easy it is to buy everything else you need. As a buyer, you have all the power. You can pit suppliers against each other in bidding wars to get you the lowest price. You can find spectacular freelancers who will build, assemble, design, draw—whatever you need done, you can buy.

What should you do if you hate to sell? What if the idea of getting in front of a customer fills you with dread? Basically, you have two choices: You can find another line of work. Or you can focus all of your energy on hiring someone who can sell better than you can.

Faking your way through isn't going to work. Hoping that the sales process will go away won't help either. As a bootstrapper you *must* sell yourself and your business. Otherwise, no business.

# Ringo was the Luckiest Beatle

There are no guarantees in life, but the odds are that if you can take care of these nine things in your business, the rest will take care of itself.

## RULE 1: FIND PEOPLE WHO CARE ABOUT CASH LESS THAN YOU DO

Tapping a bank for a loan when you don't yet have much to show so far is understandably scary. Fact is, it won't work. Banks are in business to have their loans repaid. And there are many, many businesses ahead of you in line for that money.

Sometimes it seems like the only option you have is to borrow money from friends and family.

Borrowing from other businesses to fund your business is much smarter than borrowing personal money. Your suppliers and your customers almost certainly have different objectives than you. If you can collect early and pay late, you can grow with their money.

Instead of trying to cajole a skeptical banker into lending you money on faith, borrow money from the people who have the greatest interest in your success: your suppliers and your customers.

For a minute, picture yourself as one-person publisher who's dealinig with a printing salesman under pressure to make sales. All of his old accounts are buying the most printing they possibly can. If he makes any bonus money this year, it's going to be by creating new accounts.

That's you. A new account. Sure, you don't have much of a credit history and you're working out of your attic, but your publication just might become the next *Time* magazine.

The salesman is now on your side. He wants your business. He wants to figure out how to get the company to give you credit. After all, if you succeed, he succeeds.

Courting your big suppliers is a big part of being a successful bootstrapper. It gives you leverage. It lets you get inventory without using precious cash, saving it for those expenses you can't get on credit.

Best of all, when a supplier gives you extra time to pay your bills, it usually doesn't cost anything at all. That's right: zero interest.

One bootstrapper persuaded her printer to do $2 million worth of printing with no money down and 200 days to pay. In that time, she was able to build the reputation and get the advertisers she needed to make the cash flow positive. Lesson: You have to ask.

In a competitive marketplace, credit is often the tool that suppliers use to differentiate themselves. Take typesetting, for example. Lots and lots of folks have typesetting equipment. It's all pretty much the same. The profit margins are pretty high, but getting new customers is challenging and expensive.

My company offered a typesetter the opportunity to get $40,000 worth of new business, but he first had to agree to give us 90 days to pay his bills. My company saved tens of thousands of dollars in interest expenses, and the typesetter gained a new customer. We were both happy.

Lots of landlords will give you several months of free rent when you take space that doesn't require much interior decoration work and isn't in hot demand. Consultants, lawyers, designers–none of them have much in the way of out-of-pocket expenses, so floating you some credit doesn't cost them very much.

Another very important step in establishing credit: Bbe up-front with your customers and learn how to deal with them in a professional way. One thing the credit department of your target company will want is a credit history. So build one as quickly as you can. Do small amounts of business with a number of suppliers and pay cash up front. Call Dun & Bradstreet and get a report started on your company (it's free—call 800-333-0505). Tell D&B exactly whom they should quiz about your creditworthiness.

Once you've laid the groundwork, you'll be ready to start working with the essential suppliers. It helps to start with a salesperson who will take the time to teach you what you need to know.

In 1985, I cold-called Beth Emme, a printing salesperson for R. R. Donnelly, the largest printer in the world. (I figured I ought to start at the top.) I persuaded her to buy me lunch (always let the salespeople pay!) and then quizzed her for two hours. What she taught me about printing would have taken years to learn without her help.

Guess what? Over the next few years, Donnelly got lots of business from my company. They always gave me 90 days to pay my bills. I paid all their bills within a few months. And even better, Beth is now one of my best friends.

When you establish credit with your suppliers, it's important that you not go too long without paying anything. A client who makes regular payments every month is pretty hard to cut off—even if your balance is higher than they'd like.

The second great source of capital is customers. That's right. The people you're trying so hard to sell to are also a great source for money.

Remember, the product you're selling solves a problem for them. If it didn't, they wouldn't buy it. If you can't solve the problem for them, then they'll still have the problem.

My friend Sam invented a vending machine that became a huge fad. A major national chain wanted 500 machines—right away. One problem: Each machine cost $10,000 to build.

Sam frantically tried raising $5 million to pay for the machines already ordered. But the interest rates were very high, and most banks and investors didn't want to take such a big risk on a bootstrapped company.

I suggested that Sam ask the chain to pay half in advance. While it was against the chain's policy (they usually pay in 60 days, which would have been 120 days after Sam needed the money), it realized that if it *didn't* pay in advance, it wasn't going to get the machines. And the machines were worth more than money to the chain. So it paid.

Sam got his $5,000,000, up front, for zero interest.

Of course, sometimes it's not that easy. Sometimes you need to give the customer an incentive to pay early. A discount, or a free gift. But you won't get the money unless you ask. Always ask.

## RULE 2: SURVIVAL IS SUCCESS

As you'll see in rule 5, things get better. But first, you've got to survive. If you can survive dealing with a tough project or a testy customer, do! Don't wait for the perfect pitch in the strike zone before you swing the bat.

CUC is a $2 billion publicly traded company. When it started 20 years ago, the mission was to use kiosk technology so people could buy things electronically. After raising plenty of money, CUC discovered that the technology didn't work. So it shifted the mission and started very low tech shoppers' clubs, ones that gave CUC cash flow, plus buying power and experience.

Now, several decades later, CUC is getting into technology in a big way. It's one of the largest online stores in the world. And the business is built around those old-fashioned buying clubs. In fact, without the 20-year detour, CUC never would have learned all the valuable lessons it needed.

At the beginning, when you're armed with a plan and a cash-flow statement, you might be tempted to be very choosy about which projects and which customers you take. Don't do that! (At least not too much). Watch the money. Take the money.

Allocate a percentage of your week to making money. Any way you can that doesn't distract from the core business. If a project makes money, it's a good project. If a product makes money, it's a good product.

The market has something in mind for you and your company. As you follow the market, as you build your reputation and your skills and your assets, new opportunities will arise.

The vast majority of start-ups go under within five years. So if you're still around, you're a winner. And it's probably because you were focused on survival.

Don't take this survival advice too far. But take it. Money now is better than money later.

## RULE 3: SUCCESS LEADS TO MORE SUCCESS

The more you do, the more you do. Being in front of people will lead to new opportunities, new products, new engagements. Be in motion, because customers like motion.

I've worked with many bootstrappers who have turned focus into a double-edged sword. They turn down work or avoid pursuing opportunities because they worry that it will keep them off the market when the right thing comes along. Sort of like the guy in high school who didn't date because he was waiting for the head cheerleader to go out with him. He didn't realize that she preferred to date someone with lots of dates.

Being busy creates its own successes. How?

1. Gives you positive cash flow
2. Teaches you things you didn't know
3. Builds your reputation
4. Builds your credit rating
5. Puts you in contact with smart people and potential customers

But being busy has significant downsides. The biggest one: You can really muddy your positioning. If you want to be the real estate agent who sells only expensive mansions, selling too many condos isn't going to help.

Where do you draw the line? How do you balance the desire to be busy with the focus you need to succeed?

My suggestion is that you watch your cash flow. Try to keep a reserve of 6 months' worth of operating expenses in the bank. When the number drops below six months, that's a message that your focus is in trouble.

Listen to your bank account!

## RULE 4: REDO THE MISSION STATEMENT AND THE BUSINESS PLAN EVERY THREE MONTHS

Success brings more success, and you learn as you go. I guarantee that in six months, you'll know so much more than you do now that you'll realize your first business plan was naive.

Some bootstrappers, enamored with the legendary stories of Nike or Apple, plug along with the original vision. Hey—Bill Gates didn't set out to build the Microsoft we know today, Hewlett Packard made scientific measuring devices, and Motorola made radios.

Learn as you go. Change as you go. Building a business from scratch is like walking through a maze with many, many doors. Once you open one, 100 new doors present themselves. As you move your way through the maze, you need to stop and check your location. Look at a map. If you're in the wrong place, move. But if you've discovered a new place, there's nothing wrong with exploiting it.

You need a formal business reinvention process. Put it in your calendar. Every three months, take your most trusted advisers, employees, backers, and even customers and get away from the phones for a little while.

Start from scratch. "If we were starting over—no office, no employees, no customers—would we choose to be where we are today?" If the answer isn't, yes, then it's time to take a hard look at the path you took and the impact it has had on your business.

Your path to business success is a maze, not a straight line. As the market develops, as you develop, as your employees develop, you'll discover you made some great decisions. But you also probably made some short-term decisions that became habits, and missed some opportunities because you were busy chasing something else.

Polaroid almost went under because it aggressively pursued instant movie film when it should have been chasing video. Fortunately, Polaroid realized the error in time and corrected the course before it was too late.

WIT Capital is an online company dedicated to raising money for other startups. But it used to be a brewery! The brewery did an IPO (initial public offering) online, enjoyed the process, and decided to make that the company focus. Talk about a shift in perspective.

Obviously, you have to walk a very fine line between succumbing to all the latest fads and digging in while the world changes completely around you.

That's why business-objective discussions need only happen once every 90 days or so. It makes it easy to focus on your work all of the rest of the time.

## RULE 5: ASSOCIATE WITH WINNERS

Four groups of people will dramatically influence how your business evolves:

Customers

Employees

Vendors

Peers

Line yourself up with the wrong people in each category and, like a poorly created bonsai tree, your business will grow up twisted and misshapen. An angry big customer can force you to make concessions you'll be sorry you agreed to. Same thing with difficult vendors or pouting employees.

### CUSTOMERS

Some customers are demanding, focused, responsive bellwethers for the market. After creating something for these customers, you'll discover lots of other customers wanting to buy something just like that.

Other customers are greedy and dishonest. They want you to invest in a relationship with their business and charge them the lowest price. And once the chance to switch comes along, they'll jump ship.

Other customers have horrible taste. They demand products and services that no one else could possibly want, that force you to develop skills you can't transfer, and that don't create the positive word of mouth and buzz you need.

And the last sort of customer is a jerk. He yells. He screams. He doesn't pay on time. He lies to you. He drags you into court. He badmouths you to others.

Want to guess which ones you need?

Most businesses wouldn't even consider firing a customer. But sometimes it's the smartest thing you can do. Several years ago, we fired one of our best customers. The company accounted for a significant percentage of our income. But its employees were nasty people. They constantly assaulted my own and my employees' integrity. They threatened to violate contracts whenever they thought it would benefit them.

Tired of living in fear, we politely asked the company to find a different supplier. In the burst of energy that followed the sigh of relief we all breathed, we replaced it with four customers who generated more than twice the business.

For many companies, Microsoft is a great example of a bad customer. Microsoft frequently wants to buy products for its suppliers that the rest of the industry doesn't think are all that good. Microsoft also has a habit of learning from its suppliers and then either swallowing them up or replacing them with its own technology.

Microsoft invested (and lost) more than half a billion dollars in building its first two generations of online products (called the Microsoft Network, or MSN). The people behind MSN had an incorrect, but very confident, view of exactly what they wanted. Now, Microsoft can afford to lose half a billion dollars experimenting online. But in the process, it wiped out dozens of businesses.

Each of these bootstrappers had signed up to do Microsoft's bidding. Microsoft was so demanding that for many of them, it was their only customer. And the deals were structured so that the profits, if any, came at the back end, not up front.

When it was clear that the MSN wasn't going to make the Microsoft executives happy, they just changed direction. and wiped out whole sections of the online service in one day. And while they lived within the boundaries of their contracts, they also left their suppliers holding huge investments with no prospect of ever earning their money back—no one wanted what Microsoft had dreamed up.

Sometimes the cash you're receiving from a particular customer—even a big one—may not be worth it.

## EMPLOYEES

It seems obvious that the right employee can make a huge difference to your organization. But the wrong employee can make an even bigger difference.

Are you looking for people who are smart or brave or quick or loyal or plodding or reliable or safe or attractive or obedient? Plenty of available people fit each category.

You'll discover that the time you spend managing people can have a huge impact on the way you run your business. And the boldness and cleverness of your employees will directly impact the decisions you make.

If you're hellbent on building a multi million-dollar corporation, better be sure your employees buy into that before you hire them. And if you need an in-house skeptic to balance your proclivity to launch hare brained schemes, make sure you hire for that as well.

Employees do more than just complete the tasks you give them. They establish a pace, a culture, a tone for your company. And when they deal with the outside world, they *are* your company.

I had one employee who seemed to have a huge gray cloud of bitterness over her head. She could see the downside of every project and concluded that every deal was designed to hurt us.

She was fine at accomplishing her assigned tasks, but only after she left did I realize what a pall she had cast over my company. She had pushed the staff in a direction we didn't want to go, and I'm sorry she stayed as long as she did.

*The two most important things you can do when hiring people are:*

1. Make sure you have a precise, written description of both what the person is to accomplish *and* the attitudes and behaviors you want to see.
2. Hire people quickly, but hire everyone with a 60-day trial period. If a person isn't adding enough value to your company, swallow the pain and ask him to leave. By doing that, you'll feel far less pain than you would in the long run by keeping that person.

Can suppliers really influence your business so profoundly?

In traditional car manufacturing, each assembly point has a large supply of parts. A big bin of nuts, bolts, bumpers, whatever. If the part doesn't fit easily or is defective in some way, the line worker just throws it out and grabs the next one from the bin. This method ensures that the line never slows down.

But in making their high-quality automobiles, the Japanese use a technique called JIT (just-in-time) manufacturing. In JIT, there is only one part in the bin. The factory that makes that part is just down the street, so the part supplier makes many, many deliveries over the course of the day.

What happens if the part is no good?

The line worker hits a red button that shuts down the entire assembly line. People notice.

Guess what? The quality of parts in Japanese car factories used to be *5 to 10 times* better than it was here. And that led to much smarter American manufacturing and much better cars.

A simpler, smaller example is my friend Dan. Dan invented a card for the Amiga computer that used a bunch of computer chips to generate music. He bootstrapped the business from scratch and built a tremendous reputation for leading-edge components.

One reason for his success: His suppliers were quick to teach him about new parts on the market and eager to help him reengineer his products to make them faster and cheaper. A lesser supplier would have let Dan go on using more expensive, more profitable chips. But a smart supplier knew that he was better off helping Dan's business, because in the long run they'd both make more money.

The same is true for *your* business. If the vendors you work with are responsive, high-quality organizations focused on your success, you're much more likely to succeed. Obviously, not every vendor is going to meet this criterion. So you need to invest time and energy in finding alternate sources and in training and rewarding vendors to work with you better.

## PEERS

These are the folks you work with or compete with or just orbit around. Even though they seem less important than the folks you buy from, sell to, or work with, they have a huge impact on how you make decisions.

Finding peers is difficult. Most bootstrappers and senior-level executives believe that they are too busy to take the time to interact when there isn't a specific business reason.

Big mistake. Networking can dramatically increase the quality of your sales efforts and your products and, best of all, increase the wisdom you gain from your work.

The best way to find peers is to devote several hours a week to doing favors for people. Favors with no intent of being repaid. Do some favors for strangers and some for friends.

What's a favor? Sending someone a relevant newspaper clipping or e-mail message. Even better, referring business to another company that can handle it better than you. Find opportunities to brag on other companies and other people you know. You'll be meeting sometime with someone who might need to work with them.

If you interview someone who's terrific but not for you, send that person to a peer. You just made two friends! If you write an article and need a case study, ask a peer to contribute. If you deal with a business and you're happy (or unhappy) with the experience, write a letter to the president and, founder to founder, let her know, how she did.

A few hours a week ought to net you a group of 100 or more peers who will benefit from your efforts as much as you'll benefit from theirs.

Another alternative is a more organized peer group. You can start one yourself or join an existing one. The Young President's Organization (YPO) does this for entrepreneurs under 40 with pretty significant companies. Other groups include your local chamber of commerce or local CEO clubs.

A warning about the organized groups: Be sure to join one that's as upbeat and enabling as you are. It does you no good to sit around complaining about employees and banks and customers. You need to surround yourself with people who have succeeded and are still enjoying the ride.

I was lucky enough to be invited to address a monthly dinner club with people like that—six people who meet in Manhattan to trade war stories, play a little poker, and hear from guest speakers who can teach them something. All the group members took time to tell me how much the club had helped them build their businesses.

## RULE 6: BEWARE OF SHARED OWNERSHIP (OR, WHY RINGO WAS THE LUCKIEST BEATLE)

This section might save you a fortune. It can certainly save your business. The medicine in it may seem hard to swallow, but I've been there, and so have a lot of other entrepreneurs.

In *Bargaining Games,* J. Keith Murnighan takes us through a very neat thought experiment:

Imagine receiving a phone call from a respected attorney. She tells you, "I'm sending you a ticket to France on the Concorde. Next week, on Thursday, at 5 PM, you're to meet someone somewhere in Paris. You don't know who that person is. You don't know where to meet them. You can't advertise in advance to find them. He is looking for you as well. If you meet, I'll pay you $20 million."

So the question is, Where would you go?

More than two-thirds of the people who answer this question give the same answer: the Eiffel Tower. It's an obvious landmark that someone searching for a noticeable meeting place might choose.

This insightful experiment shows us the way we often negotiate. In deal making, a 50/50 split is like the Eiffel Tower. It's an easy mutual agreement spot, a spot that seems fair.

Well, a 50/50 split is almost never fair. It's almost impossible to find a situation in which two people contribute equal amounts, have equal needs, have mutually consistent expectations, and will stay with the business the same amount of time.

Inevitably, someone feels cheated. And someone goes for the ride.

After Pete Best dropped out of the Beatles (okay, he was fired), John, Paul and George needed a drummer. And Ringo was in the right place at the right time. Now, I have no idea if the Fab 4 had a four way split, but they probably did. And Ringo, a mediocre drummer by any measure, had a great ride on the backs of three musical geniuses.

Fair? Hard to imagine that any analysis would demonstrate that Ringo deserved the same share of the Beatles as John Lennon.

Paul Allen, the cofounder of Microsoft, was probably a critical factor in that company's early success. Bill Gates certainly needed his skills during the earliest days. But today, Gates continues his monomaniacal quest for world domination, and Paul is lucky enough to watch his stock rise and rise in value while he doesn't even have to lift a finger.

Remember, the number one thing you have to invest is your time. And it's almost impossible to guarantee that a partner is going to invest her time in the same way or with the same impact as you. At the early stages of starting your business, it's tempting to undervalue the company, to let the experts have a big piece of the pie in exchange for getting you in the door.

One entrepreneur I know was enamored with a well-connected expert who offered to get him in the door, giving him the audience he needed with all the right clients. And the expert wanted only 20 percent of the company profits, no upfront money.

Six years later, the entrepreneur is still sweating, still working to keep the company going. And by now, the company is doing $10 million a year in sales. And that first consultant, who stoppped contributing more than five years ago, still owns 20 percent of the company.

Of course, the insights and productivity that come from productive collaboration are irreplaceable.

So what should you do? Doing everything yourself is counterproductive. And being fair to the people who contribute to your business is essential. Here are five principles to consider when you sit down and start talking about shared ownership:

1. *Plan for success.* Sure, giving away stock in a failed venture costs you nothing. But imagine that your venture is going to be worth $100 million. This attitude will help you in every aspect of the business. And it especially helps focus your attention when you start taking in partners.
2. *deas aren't worth much.* It's so easy (and fun) to go to a bar with a friend or two and dream up a new business. And at the time, it seems only fair to be even partners. But usually, only one of you does all the work. And then resentment builds, and the partnership falls apart. Sometimes the whole company folds. Sometimes the arrangement is just expensive.

It's not the idea that's going to make you money. It's the sweat and the effort and the execution. If you want to brainstorm with people, that's great. But make it clear up front that the pay is the pizza on the table or a flat fee or whatever else, so long as you don't give up a piece of your company.

Here's one way to do it: "Help me dream this up. If it works, and xxx happens, I'll give you a check for $50,000 in cash, for you two hours (or two days or two weeks) of work. If it doesn't work, we both lose." More often than not, the party who doesn't really want to be an entrepreneur anyway will be happy to focus on the fixed number. By the way, don't forget to put your terms in writing.

When Phil Knight needed a logo for his new sneaker company, he paid a woman $35 for the design. Good for Phil that he didn't pay her with stock or just license the design!

Never give someone a big chunk of a business just because he had a great idea. There are plenty of good ideas around—free. The exception to this rule is if this person with the idea has a patent or a reputation that will dramatically expand the value of your business.

3. *Always leave both sides an out.* Nothing lasts forever, especially business partnerships. A dear friend of mine spent two years wrestling with a former partner when he left in a huff. In the end, everyone loses. Make sure you have a well-defined clause that lets either party leave without wrecking the business.

One common approach is a shotgun clause. It says that at any point, Person A can offer to buy out Person B. Person B then has a few days either to take the money *or* to turn around and pay Person A exactly the amount proposed. It's guaranteed to be fair, and it's quick.

4. *Match compensation with performance.* An approach that's worked for a lot of bootstrappers is a performance-based split. Imagine that two partners start a business. They each own 5 percent with 90 percent in a mutually owned pool. Every six months, the 90 percent is allocated by a predetermined formula for hours invested in the business or sales made,or products developed. Two years later, all 90 percent is allocated, and the partner who made the biggest contribution clearly ends up with the biggest share.
5. *Never, confuse profit participation with governance.* The biggest problem with a 50/50 split is that no one is in charge. Someone *has* to be in charge. So divide control of the company differently than profit participation. Make sure that, especially in the early days, one person makes decisions. If you can't trust your partner enough to cede this to him, or vice versa, time to find another partner or try another business.

## RULE 7: ADVERTISE

From the first day, allocate a percentage of your income to marketing. Do marketing *before* you take out money to pay yourself. Letters, phone calls, banner ads, space ads, even TV—they're all cheaper than you think. *And you've got to spend the money to get the money back.*

*Here, let's repeat this paragraph, because it's that important:*

From the first day, allocate a percentage of your income to marketing. Do marketing *before* you take out money to pay yourself. Letters, phone calls, banner ads, space ads, even TV. They're all cheaper than you think, and you've got to spend the money to get the money back.

Advertising feels like an expense. It's not. It's an investment. An investment that takes a little while to pay off, but when it does, it's magic.

The coolest thing about marketing is that when you mix two ingredients—time and money—you get an enormous return. A consistent, persistent, intelligent ad and marketing campaign, done for months or years is nearly certain to pay off.

Remember, sales are what make your company work. And sales happen when you get access to people and they trust you. *Advertising makes sales happen.*

*The Four Most Important Rules of Advertising*

### 1. SPEND REGULARLY ON ADVERTISING.

Yes, advertising is scary. It seems like a crap shoot. You pay your money and nothing happens. You pay your money again and nothng happens. Then, after a while, it starts to pay. But most bootstrappers get impatient and give up too soon.

The way to plan your advertising is to budget for it. Figure out approximately how much your competitors advertise. (This is easy if they're buying print ads, much harder if they're using direct mail. One way to get an idea is to ask someone who doesn't directly compete with you what they do.) Then, settle on a percentage of your revenue that will at least, match, if not beat, the industry average.

Then, every month, whether you need it or not, spend that money. Spend it when times are good. Spend it when times aren't so good. Because advertising is a little like watering seeds, you don't want to miss even one cycle.

### 2. PERSISTENCE IS THE SECRET TO SUCCESS.

In my town, a guy named Steve buys an ad every week in the local paper. Steve fixes toilets. I don't have a broken toilet right now, but you can bet that when I do, I'll dig out last week's paper and call Steve. Steve earned the sale. He bought it with a great, consistent advertisement. I trust Steve. I figure if he can afford to keep running that ad, he must be pretty good at fixing toilets.

If you persist, directing your advertising to the same people over and over and over again, you'll make a dent. Instead of always looking for a new prospect, a new audience, a new market, make sure you harvest all the apples on this tree first.

Marketers focus on two different things: reach and frequency. Reach is a measurement of *how* *many* different people see your ad. Frequency is a measurement of *how often* these people see your ad.

Reach is intoxicating. Buy an ad on TV and you can reach millions of people. But it's frequency that pays the bills. Here's a simple quiz to prove what I mean:

*Winston tastes good…*

If you knew the rest of this slogan ("like a cigarette should"), then you're like most other Americans. But this ad hasn't been broadcast in the United States since 1964! How does a slogan like this last for generations? Because of frequency. Winston burned it into our brains and our parents' brains by repeating it over and over and over again.

The secret to frequency is targeting. If you buy general advertising in a newspaper or on TV, it will be very, very expensive for you to reach the people you need, over and over. Instead, you need to use more direct media to capture the attention of your target audience.

The Stereo Advantage, which I talked about in an earlier chapter, has been running a themed ad in the same newspaper for more than 15 years. Every single Friday, the company runs a third-page ad in the *Buffalo News*, announcing their specials. You might not have seen it the 1 time, or noticed it the 2nd time or read it the 3rd time or acted on it the 4th time, but the 725th time you see the same style ad in the newspaper, it will probably dawn on you that this store is serious and isn't about to go away!

### 3. BE CLEAR.

You definitely don't have enough money to be obtuse. You probably don't even have enough money to be hip. What you do have, though, is an opportunity to be direct. To be blunt. To clearly and succinctly outline exactly why people should buy from you.

Have five strangers read your ad. Do they know what you do? How to contact you? What's in it for them?

Your headline is an invitation to read the rest of the ad—whether it's a letter, a billboard or a TV commercial. If you don't get the prospects' willing participation in the ad, they'll ignore it.

Once you have them interested in the ad, you must tune in to everybody's favorite radio station: WII-FM (What's In It For Me!. Be crystal clear about what's in it for the prospects. And then make it unbelievably easy for them to do what you'd like them to do—make the contact.

### 4. TEST AND MEASURE.

If an ad doesn't work, change one thing and try again. Measure phone calls. Measure sales. Measure inquiries.

The more you measure, the better your ad gets. Be a control freak about testing. Test one thing at a time. Make every ad you run a direct-response ad. Even if you're trying to boost your store's traffic, build in a response mechanism.

This is harder than it sounds, but it's worth it. No matter what sort of business you're running, you need to figure out a way to measure what works and what doesn't. You can insert coupons in the mailings you do. You can offer a discount if someone mentions an ad. You can (and should) have a separate phone line for the ad you run in the Yellow Pages so you can track which calls come from that very expensive ad buy.

Most of all, you should ask. No business is so impersonal that you can't talk to your customers. Take them to lunch or buy them coffee or just chat with them. Ask them what they've noticed about your marketing campaign. Ask them what finally enticed them to come visit.

Go slow. Don't be so quick about pulling one campaign and replacing it with an entirely different one. When you change marketing strategies, you lose all the frequency you've worked so hard to attain. And you have to start over.

As Jay Levinson, the father of guerrilla marketing, says, don't change your advertising when you get tired of it. And don't change it when your staff gets tired of it. Change it when your accountant gets tired of it.

## RULE 8: GET MENTORED.

Nowhere does it say you've got to do this all alone. Find someone who's come before you and ask for help. Odds are, you'll get what you ask for.

What you're doing here is pursuing the American Dream. I don't know about you, but I love seeing people succeed. And if there's a way to help someone else reach a goal, most people are eager to pitch in.

To find a mentor, you need to take some initiative. Finding the right person in the right industry at the right stage of her career takes some homework.

Lester Wunderman, the father of direct marketing and the most influential person in his industry, has been a tremendous teacher for me. So has Jay Levinson, the original guerrilla marketer, along with several other less famous but no less influential mentors I've found.

If you feel as though you're alone out there, go get some help. Not everyone will say yes (most of us are way too busy to mentor everyone we'd like to). But if you can find the right people, odds are some of them will be happy to assist you.

I recommend two steps in acquiring a mentor:

### 1. PICK THE RIGHT PERSON.

Famous people aren't always your best bet. They're busy, they're in demand, and they may be hard to reach. And, believe it or not, they're not always the smartest people in town.

The mentor you choose should be convenient (a mentor 5,000 miles away isn't going to help you much unless e-mail is the interaction mode of choice). And he should have life experience and a network of connections that really help your business. Picking a willing mentor isn't nearly as important as picking an effective one.

### 2. MAKE IT EASY FOR THE MENTOR TO SAY YES AND EASY TO SAY NO.

You're asking for a favor here. A big one. For that reason, you can't feel defeated if the mentor doesn't have the time or the interest to help you. If that happens, overcome your natural bootstrapper desire to persist, and graciously move on.

There are lots of reasons why an individual might not want to mentor you. Time is the biggest one, of course. But there may be organizational, competitive, or personal reasons as well. You can be sure it's not about you personally, but some external factor. Let it go.

I'm a big fan of a letter, or maybe two letters, in which you lay out who you are and what you're looking for. You probably don't want to write to a stranger and say, "Hey, want to spend 10 hours a week giving me free advice?" Instead, start the relationship in a simple, no-obligation way. Maybe ask the person to lunch to pick her brain. Maybe inquire about friends of friends who might be able to point you to other friends…

One woman I know is an expert networker. She has had a series of minimentors, people who help her with specific issues.

She asks her network of people, "Who do you know who's an expert or topic *x*?" Then she writes a short letter to the person who's been recommended, mentioning the person who recommended she write and asking for 15 minutes on the phone.

She calls the person's secretary, then sends the letter. Nine times out of 10, she gets her 15 minutes on the phone. She spends 10 minutes exploring the issue she needs help on, then asks for (and usually gets) the names and phone numbers of three or four other people who might be able to help.

And she always sends a nice thank-you letter.

Is it hard? Not at all. Does it require preparation so she doesn't sound uninformed? Absolutely. But it is the single dynamic behind her phenomenal success—she seems to have access to any person and any information she needs.

One last thought: Never ask your mentor for more than advice. Don't ask for money. Don't ask for free output (like a designed ad or a written proposal). If you do, both of you are put on the spot. And your request will often lead to an awkward end to the relationship. Mentors don't commit for money, but for the gratification of seeing someone else succeed. They want to see *your* work pay off.

## RULE 9: OBSERVE THOSE LITTLE BIRDS THAT CLEAN THE TEETH OF VERY BIG HIPPOS

My son Alex was blown away by the diorama at the Museum of Natural History in New York. There's a giant rhino, bigger than a Volvo, with its mouth open. And there, in the mouth of the beast, are a bunch of little birds.

"What are the birds doing in the hippo, Dad?" he wanted to know. As always, I told him more than he probably wanted to know. I explained that the birds eat the bugs the rhino can't get to. The birds are happy because they get an easy meal. And the rhino is happily bug-free.

There's a lot a bootstrapper can learn from these little birds. By creating a mutually beneficial relationship with a hippo, you can make a lot of money, generate credibility, and avoid being eaten.

Find bigger, richer, more stable organizations. Partner with them. It gives you credibility and access and sometimes, cash flow.

Most big-company founders hate what their companies have become. They rail against the slowness, the bureaucracy, the inability to get anything done anymore. What they need is someone like you. Someone who can take on a specific task and turn company assets into gold.

You'll be amazed at how easily you can license a brand name or do deals for ad space or take over projects for a big company. Occasionally, the company will pay you up front, just to maximize the chance of success.

Western Electric used to be the number-one manufacturer of vacuum tubes (the things that glow inside old radios). Acquired by mammoth General Electric, the Western Electric factory in Kansas was defunct and the brand name was in mothballs.

An entrepreneur went to GE and licensed the Western Electric name. And he got GE to throw in the factory practically for free. GE gets some income on the margin, and the bootstrapper gets a brand heritage and a factory that would have cost him millions of dollars to build.

You'd be amazed at all the products that aren't made by the companies you *think* make them. Fisher-Price eyeglasses for kids. Sears roofing services. Flintstones vitamins. Corporations large and small are eager to find bootstrappers who can turn their wasting assets into cash.

Is it that easy? Follow 9 rules and you automatically succeed? In a word, yes. But following all 9 rules isn't easy. It takes commitment and concentration. You won't hit every one every day, but they're a great place to start.

Good luck. Have fun. Thanks for reading.